Financial Auditing and Reporting: 2003 - 2004

General Report by the Comptroller and Auditor General for Northern Ireland

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

Ordered by the House of Commons *to be printed* 7 July 2005

HC 96

LONDON: The Stationery Office £19.00

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

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Table of Contents

Report by the Comptroller and Auditor General for Northern Ireland

INTRODUCTION

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

- RESOURCE ACCOUNTS
  Significant matters arising from the audit of the Resource Accounts of government departments for 2003-2004.

- EXECUTIVE AGENCY AND NON-DEPARTMENTAL PUBLIC BODY ACCOUNTS
  Significant issues arising from financial audit work undertaken on Executive Agency and Non-Departmental Public Body accounts.

- NORTHERN IRELAND CONSOLIDATED FUND
  Analysis of major items of revenue paid into the fund and analysis of issues from the Fund.

Part 1

Resource Accounts

2003 - 2004

Progress on Resource Accounting in Northern Ireland

Introduction

1. This is the third year in which departmental accounts have been prepared on a resource basis. Under the Government Resources and Accounts Act (Northern Ireland) 2001, departments are required to produce commercial-style resource accounts. These accounts are much more complex than the Appropriation Accounts which they replaced. The Appropriation Accounts simply showed the cash spend. The Resource Account is a consolidation of the financial results of the department and its agencies and comprises a series of inter-related statements showing how the department was financed, its expenditure by type and purpose, and its financial position at the end of the year.

Delivery of Resource Accounts

2. The Government Resources and Accounts Act (Northern Ireland) 2001 requires departmental resource accounts to be submitted for audit by 31 July immediately following the 31 March financial year end, and for the accounts to be certified by 31 October. The Department of Finance and Personnel have until 15 November to lay the accounts before the Assembly or Parliament.

3. In 2003-04 all Northern Ireland Resource Accounts were submitted for audit, certified by the Comptroller and Auditor General and presented to Parliament by the above statutory dates.

Qualified Audit Opinions

4. The quality of accounts submitted for audit continues to improve. Qualified opinions were issued on four resource accounts compared to seven in 2002-03. Two of the four accounts that received a qualified audit opinion in 2003-04 would have been qualified anyway under the cash based system of accounting.

Department for Social Development

The audit opinion on this account would have been qualified anyway on the following counts:

- a significant level of estimated fraud and incorrectness in certain social security benefits;
- weaknesses in financial control and monitoring of urban regeneration and community development grants to voluntary and community bodies; and
- weaknesses in financial control and monitoring of grants paid to Registered Housing Associations.

Department of Health, Social Services and Public Safety

The audit opinion on this account would have been qualified anyway under a cash based system on grounds of regularity. There was a material loss of income as a result of patients incorrectly claiming exemption from health service charges. As a result the lost income was not available for the purposes intended.

Pension Scheme Accounts

6. The audit opinion on two pension scheme accounts (Teachers' and Health and Personal Social Services) was disclaimed on matters arising from new higher financial reporting requirements whch came into operation in 2003-04. Financial Reporting Standard 17 (FRS 17 - Retirement Benefits) requires provision in the financial statements for future liabilities. In both schemes I was unable to form an opinion on the accounts due to the absence of sufficiently complete and up to date actuarial valuations.

Excess Vote

7. In the Teachers' Pension Scheme there were also shortcomings in the procedures used by the Department of Education to support the Estimate process. As a result the Department incurred expenditure of £123 million in excess of the amount authorised by Parliament. Departments which incur expenditure in excess of the amounts provided must seek the covering authority of Parliament by means of an Excess Vote at a later stage. Such excesses however small, are irregular and result in a qualified audit opinion. It is important that all Pension Schemes in Northern Ireland which are subject to resource budgeting review their estimates procedures to make sure that they are not vulnerable to the deficiencies which gave rise to this Excess.

Conclusion

10. I am pleased to report that, in 2003-2004, there was a clear improvement in both the quality and timeliness of Resource Accounts submitted for audit. However, with four out of seventeen accounts not receiving a clear audit opinion some departments particularly those operating Pensions Schemes have further work to do to bring their financial reporting up to the standard that Parliament expects.

Departmental Estimates

Background

1. Departments are required under government accounting rules to produce supply estimates to cover predicted expenditure for the year ahead. Supply estimates are defined as detailed spending plans which form the basis on which either the Northern Ireland Assembly or Parliament votes the spending limits, and associated cash requirements, for departments. Supply estimates for Northern Ireland departments contain two key elements:

- Net resource requirement – this is the total amount of resources required by the department to carry out its functions and to fund the spending of relevant sponsored bodies (primarily NDPBs). It contains both cash and non cash elements.
- Net cash requirement – this is the amount of cash the department requires from the Northern Ireland Consolidated Fund to carry out its functions and again to support sponsored bodies.

2. Net resource and net cash requirement estimates for Northern Ireland departments are voted by either the Northern Ireland Assembly or Parliament and are included in the departmental resource accounts against outturn realised for the year and significant variances are explained. Departments are required, under government accounting, to include explanations for variances of £500,000 or 10 per cent whichever is greater for both expenditure and receipts. Figures 1 and 2 below identify the reported estimate against outturn for both net resources and net cash for all Northern Ireland departments in 2003-04.

Commentary on Estimates against Outturn

Net Resources Estimate against Outturn

3. Parliament voted Northern Ireland departments an upper limit as regards their net resource requirement of almost £13 billion for the 2003-04 year. In 2003-04, the departments' actual resource needs were £1.4 billion, or 11 per cent, less than the upper limit. One resource account, the Department of Education – Teachers' Superannuation, had an overspend on estimate of approximately £123 million, the reasons for this are further explained within this report (see section 1.4 paragraphs 19 to 27). All other departments had resource needs which were lower than the amounts voted, ranging from 1 to 52 per cent of the relevant limits set. The most significant variations from estimate occurred on the three superannuation accounts, where the accounting standard on pensions (FRS17) was being implemented for the first time. The impact of the implementation of FRS17 was that forecasted actuarial valuations had to be used for estimating and these proved to be inaccurate, resulting in significant variances when actual figures were received. The Department for Regional Development also had a significantly lower resource need, approximately £254 million, which was mainly caused by the difficulties in predicting depreciation costs and capital charges associated with the road network.

Figure 1: Net Resources – Comparison Estimate to Outturn 2003-04

	Estimate Net Total	Outturn Net Total	Over/ (Under)	Percentage difference from estimate
	£000s	£000s	£000s	%
Department of Agriculture and Rural Development	279,305	247,249	(32,056)	11
Department of Culture, Arts and Leisure	101,256	96,999	(4,257)	4
Department of Education	1,641,947	1,560,880	(81,067)	5
Department of Education – Teachers' Superannuation	533,794	656,719	122,925	23
Department of Employment and Learning	654,882	621,528	(33,354)	5
Department of Enterprise, Trade and Investment	245,867	242,390	(3,477)	1
Department of Finance and Personnel	184,527	144,010	(40,517)	22
Department of Finance and Personnel – Superannuation and Other Allowances	745,852	596,953	(148,899)	20
Department of Health, Social Services and Public Safety	2,613,453	2,567,248	(46,205)	2
Department of Health, Social Services and Public Safety – Health and Personal Social Services Superannuation	1,574,367	754,244	(820,123)	52
Department of the Environment	149,048	136,444	(12,604)	8
Department for Regional Development	1,387,658	1,133,759	(253,899)	18
Department for Social Development	2,748,443	2,691,466	(56,977)	2
Office of the First Minister and Deputy First Minister	54,072	49,725	(4,347)	8
Northern Ireland Assembly	33,702	32,038	(1,664)	5
Assembly Ombudsman for Northern Ireland and Northern Ireland Commissioner for Complaints	1,128	1,087	(41)	4
Northern Ireland Audit Office	6,690	6,207	(483)	7
Northern Ireland Authority for Energy Regulation	500	494	(6)	1
TOTAL	**12,956,491**	**11,539,440**	**(1,417,051)**	**11**
		Over	**122,925**	
		Under	**(1,539,976)**	
		Total	**(1,417,051)**	

Net cash requirement estimate against outturn

4. Parliament voted a limit of £9.6 billion cash to ensure Northern Ireland departments were able to fulfill their functions during 2003-04. The departments actual cash needs were £629 million, or 7 per cent, less than the limit set. All departments preparing resource accounts had actual net cash requirements which were lower than the limits set - ranging from 1 to 35 per cent. DSD and DHSSPS, which together represent 56 per cent of the total cash limit, were under the set limit by £135 million and £148 million respectively representing some 45 per cent of the total amount underspent. This represented 5 and 6 per cent of the amount of cash allocated to each Department.

Figure 2: Net Cash Requirement Comparison Estimate to Outturn 2003-04

	Estimate Net Total	Outturn Net Total	Over/ (Under)	Percentage difference from estimate
	£000s	£000s	£000s	%
Department of Agriculture and Rural Development	266,137	224,259	(41,878)	16
Department of Culture, Arts and Leisure	101,244	95,289	(5,955)	6
Department of Education	1,640,026	1,555,447	(84,579)	5
Department of Education – Teachers' Superannuation	85,665	79,437	(6,228)	7
Department of Employment and Learning	752,922	689,847	(63,075)	8
Department of Enterprise, Trade and Investment	255,174	232,363	(22,811)	9
Department of Finance and Personnel	208,898	166,001	(42,897)	21
Department of Finance and Personnel – Superannuation and Other Allowances	30,852	30,648	(204)	1
Department of Health, Social Services and Public Safety	2,643,696	2,495,098	(148,598)	6
Department of Health, Social Services and Public Safety – Health and Personal Social Services Superannuation	31,568	20,479	(11,089)	35
Department of the Environment	139,975	113,069	(26,906)	19
Department for Regional Development	617,415	584,819	(32,596)	5
Department for Social Development	2,752,148	2,617,099	(135,049)	5
Office of the First Minister and Deputy First Minister	48,806	43,953	(4,853)	10
Northern Ireland Assembly	27,047	26,258	(789)	3
Assembly Ombudsman for Northern Ireland and Northern Ireland Commissioner for Complaints	1,105	1,061	(44)	4
Northern Ireland Audit Office	6,387	5,502	(885)	14
Northern Ireland Authority for Energy Regulation	501	320	(181)	36
TOTAL	**9,609,566**	**8,980,949**	**(628,617)**	**7**

Conclusion

5. The build up of well founded estimates is essential to ensure good financial management in departments. I recognise that an effective system of in year monitoring exists so that savings can be used in another part of the public sector when identified. Nevertheless the scale of variation from estimates for both resource and cash outturn for some of the larger departments suggests the need for more precision in the build up of estimates. In my view it is essential that departments examine their processes for producing estimates to ensure that the Northern Ireland Assembly and Parliament are only asked to approve Estimates based on robust forecasts of likely spend. However, I also recognise that in some specific circumstances, mainly demand led areas, it can be difficult to produce reliable estimates of spend.

Department of Culture, Arts and Leisure-Commercial Salmon Netsmen Compensation Scheme

1. An amount of some £211,000 has been written off in the Department of Culture, Arts and Leisure 2003-04 resource account relating to a loss in respect of the commercial salmon netsman compensation scheme (see Note 32 to the accounts). Under the Convention for the Conservation of Salmon in the North Atlantic Ocean the United Kingdom has an obligation to apply precautionary restrictions to ensure the preservation of salmon stocks. In the 2001-02 financial year the Department set up a three year scheme for the voluntary buy out of commercial salmon nets in the area covered by the Fisheries Conservancy Board for Northern Ireland. (This covers all of Northern Ireland's waterways with the exception of the Lough Foyle and Carlingford Lough catchment areas). The scheme was one of a number of measures taken by the Department to halt the decline in salmon stocks.

2. During 2001-02 the Department entered into negotiations with the North Atlantic Salmon Fund, an organisation set up to initiate an international effort to eliminate all interceptory netting for salmon at sea. The North Atlantic Salmon Fund works with local groups to protect salmon in specific areas or individual river systems. It was proposed that the Department would commit funds to the scheme on the basis that the North Atlantic Salmon Fund would provide twenty five percent matching funding. The Department's application for support from the Executive Programme Fund was submitted on the basis that some £500,000 of the total projected cost £2,000,000 would be financed by the North Atlantic Salmon Fund. Although a formal agreement was prepared setting out the funding arrangements between the Department and the North Atlantic Salmon Fund, it was not signed and therefore not legally binding.

3. The contribution from the North Atlantic Salmon Fund was to be met in part by a levy on game angling rod licences issued by the Fisheries Conservancy Board and by voluntary fund raising efforts. The Fisheries Conservancy Board, as the Licensing Authority, agreed to include a £5 levy on its 2003 licence fees in respect of salmon fishing. The Fisheries Conservancy Board issues a game licence which covers salmon and certain other fish and proposed to create a new licence specifically for salmon and to impose the levy on this licence. It is not possible to say with certainty how many salmon licences would have been issued but if all those holding game licences had purchased salmon licences this would have raised a maximum of some £36,000 in 2003 towards the North Atlantic Salmon Fund's overall contribution. However, when the Board submitted the licensing byelaws to the Department for approval the Department sought legal advice which indicated that an amendment to the Fisheries Act (Northern Ireland) 1966 would be required to enable the levy to be made and the proceeds passed to the Department. It was therefore not possible to raise funds from the levy within the agreed time scale. There are no current plans to introduce this levy.

4. At 31 March 2004 a total of £1,484,000 had been paid by the Department of which £371,000 should have been recoverable from the North Atlantic Salmon Fund. The amount received from the North Atlantic Salmon Fund at that date was £50,000 leaving a balance outstanding of £321,000. The Department has informed me that it has received a further

£110,000 from the North Atlantic Salmon Fund leaving a balance of £211,000 which has been written off as a loss in these accounts. In addition, there is potential for a further loss of £45,000 as the Department is continuing to negotiate for the buy out of a number of commercial salmon nets at a projected cost of some £182,000. No contributions are expected from the North Atlantic Salmon Fund in respect of any further expenditure which may be incurred.

5. I am concerned that the Department did not fully assess the North Atlantic Salmon Fund's ability to provide funding for the scheme nor did it put in place the necessary funding agreement prior to the scheme being launched. It seems to me that as a result of the Department's inactions the scheme has cost the Department up to £256,000 in lost revenue (£211,000 already written off and potentially a further £45,000 to be written off). It is essential that funding arrangements for such schemes are fully assessed and firmly in place before the scheme commences.

6. I asked the Department why it had proceeded prior to the signing of the agreement with the North Atlantic Salmon Fund and the necessary funding being put in place. I was told that given that salmon stocks in many of the Fisheries Conservancy Board's catchments are below safe biological limits and that the Department has an international obligation to the North Atlantic Salmon Conservation Organisation to apply a precautionary approach to salmon management, it was imperative that the Department proceeded with the introduction of the scheme. The Department took the decision to proceed in the interests of salmon conservation. The Department fully accepts that it would have been preferable to have entered into a written agreement with the North Atlantic Salmon Fund prior to the scheme being launched. However, in the Department's view the North Atlantic Salmon Fund would not have signed an agreement since their funding could not be guaranteed. Without a binding agreement the options would have been to fund the scheme entirely from public funds or accept the contributions which were offered. The scheme has been effective in making a very significant reduction in commercial salmon exploitation from over 10,000 fish per annum to around 2,000 fish per annum. The North Atlantic Salmon Fund's contribution has been helpful in reducing the cost to public funds and the Department regrets that the statutory constraints prevented a larger contribution.

7. I note the Department's position. However, these anticipated receipts from the North Atlantic Salmon Fund were included in the Department's Estimate to Parliament by set off against the expenditure in the Executive Programme Funds subhead. It was improper to do this if the Department had no realistic expectation that the full amount would be received. The net result is the large amount written off. I remain concerned that the Department's approach has resulted in such a large write off and in my view it can never be good practice for a government department to commit public funds without a clear understanding with any private partner of their respective financial responsibilities. Furthermore, I consider the Department's actions in netting off the receipts against expenditure to be inconsistent with the requirements of Government Accounting Northern Ireland and the Northern Ireland Resource Accounting Manual.

Department of Education Teachers' Superannuation Resource Account 2003-04

General and accounting background

1. The Teachers' Superannuation Scheme is an unfunded contributory pension scheme for (mainly) teachers in Northern Ireland. It is managed by the Department of Education and operates under the Teachers' Superannuation Regulations (Northern Ireland) 1998.

2. The Department prepared cash-based appropriation accounts for the Scheme annually until 31 March 2001. From 2001-02 onwards, it has produced annual resource accounts. In 2001-02 and 2002-03 these resource accounts were not required to take account of obligations to pay pensions and compensation benefits which fell due after the relevant year ends. However, central government adopted Financial Reporting Standard 17, "Retirement Benefits", for application in 2003-04 and subsequent resource accounts. The requirements of this Standard are reflected in the Northern Ireland Resource Accounting Manual with which resource accounts must comply. Consequently, in accordance with the Standard, Scheme liabilities are required to be reflected in the 2003-04 account.

3. The effect of the change is that the accounts now provide information on the valuation of unfunded pension liabilities to be met in future years, the movement in those liabilities over the year and their interest cost. In previous years, the accounts focussed on reporting the costs of pensions and other benefits paid and income from contributions received from members and their employing authorities. Prior year comparative amounts have been re-stated on foot of this change.

4. I disclaimed my opinion on the 2001-02 resource account (for reasons which the Department subsequently resolved in 2002-03). I also qualified my opinion on the regularity of income in 2001-02 as the employers' contribution rate was not in accordance with the rate recommended by the Scheme's Actuary. I qualified my opinion on the regularity of income in the 2002-03 resource account for the same reason.

Contribution rate and actuarial valuations

5. The employers' contribution rate for 2003-04 (7.85 per cent) was based on the results of the actuarial valuation as at 31 March 1986.

6. The Department did not implement the 1991 actuarial valuation (which recommended an employers' contribution rate of 7.35 per cent from 1 April 2000) for the reasons set out in my report on the 2001-02 accounts. I have included the relevant extract as an annex to this report.

7. Regulations (The Teachers' Superannuation Regulations (Northern Ireland) 1998) require employers to pay contributions in line with the rate specified by the Actuary.

8. Since my report on the 2001-02 accounts, the Actuary has finalised his valuation at 31 March 1996 and has recommended an employers' contribution rate of 7.0 per cent from 1 April 2004. The Department has told me that it has implemented the recommended rate from that date.

9. I reported last year that the actuarial valuation at 31 March 2001 remains to be finalised. This is still the case. The Department told me the valuation will be finalised by 30 September 2005.

10. The Department does not yet have its 2001 actuarial valuation completed and I asked the Department what steps it is taking to ensure that actuarial valuations are completed on a more timely basis. I was told that the Department has allocated extra staffing resources to expedite the production of actuarial data. Furthermore, the Department intends to enhance further the links with the Scheme Actuary and also strengthen procedures in dealing with potential discrepancies in actuarial data. These procedures will include a range of checks which will focus on the problem areas highlighted by the Scheme Actuary. The Department told me these initiatives will ensure the production of timely and accurate actuarial information.

Quantification of the amount of Scheme liabilities

11. The Northern Ireland Resource Accounting Manual for 2003-04 requires that full actuarial valuations of Scheme liabilities by a professionally qualified actuary should be obtained at intervals not exceeding four years. The actuary should review the most recent actuarial valuation at the balance sheet date and update it to reflect current conditions.

12. The last full and complete valuation was done at 31 March 1996 rather than within the last four years as now required by the Northern Ireland Resource Accounting Manual. As it was not possible to produce a full valuation in time for the 2003-04 resource accounts, the Department consulted extensively with the Scheme Actuary to agree a way forward. The Scheme Actuary recommended that the best way to proceed was to produce an interim valuation as at 31 March 2003 updated for movements in 2003-04. The Scheme Actuary's interim valuation takes into account the following membership data provided by the Department as at 31 March 2003:

(i) members in service and salaries payable;

(ii) numbers and amounts (including pension increases) of pensions in payment, including pensions in payment in respect of premature retirements; and

(iii) numbers of members with deferred benefits and amount of deferred benefits for those who left with more than five years' service.

13. The Scheme Actuary commented on aspects of the information with which the Department had provided him. However, he also reported that he had been advised by the Department that the data as at 31 March 2003, on which the interim valuation of the liabilities is based, was reliable. For the reasons stated at paragraph 15 below, the Department was unable to resolve the Actuary's concerns.

14. Notwithstanding the Department's assurance to the Actuary on the quality of data provided, I reviewed the reliability of that data. I noted discrepancies between this data and the membership statistics provided with the 2002-03 and 2003-04 accounts. For example:

- 27,281 active members at 1 April 2003 were reported to the Actuary. This compared with 27,035 active members at 31 March 2003 stated in membership statistics included with the 2002- 03 resource accounts;

- 3,000 deferred members were reported to the Actuary, compared with 3,469 reported with the 2002-03 accounts; and
- Nil dependents' pensions in payment as at 1 April 2003 were reported to the Actuary, compared with 1,120 reported in the 2002-03 membership statistics.

15. In the absence of validated membership statistics, and a reconciliation between these statistics and the information provided by the Department to the Scheme Actuary to inform his valuations, I am unable to form an opinion on whether the Report of the Managers is consistent in that regard with the valuations of Scheme liabilities included in the accounts. The membership statistics included with the 2002-03 accounts had already been laid before Parliament. I asked the Department why discrepancies arose between the information provided to the Actuary and that included with previous years' accounts. The Department told me that the nature of such errors is often difficult to uncover and substantial resources in terms of staff time and usage of the software provider would be required to reconcile them. The Department also told me that industrial action occurred from 4 May until 28 May 2004 with 16 key staff (including staff who were liaising with the Scheme Actuary on the Interim Valuation) remaining on strike until 6 August 2004. Throughout this period management focused on maintaining the salaries and pensions payrolls. On return to work the key staff were required to deal with the vast range of high priority work that had built up over the previous four months.

16. I note that the Actuary had previously commented adversely on the quality of information the Department had provided to him for his 1986, 1991 and 1996 valuations. I regard it as unacceptable that the Department cannot readily provide verifiable membership and other statistics for the Superannuation Scheme.

17. In the absence of, firstly, a full and complete actuarial valuation within four years preceding 31 March 2004 and, secondly, a quantification of the potential effect of the discrepancies in membership data on the valuation of Scheme liabilities, I was unable to confirm whether the following are stated fairly:

- The pensions provision at 31 March 2004 and 31 March 2003 in Schedule 3 (£4,314,340,000 and £3,907,016,000 respectively);
- The net liabilities at 31 March 2004 and 31 March 2003 (£4,316,826,000 and £3,907,110,000 respectively);
- The pension cost for 2003-04 and 2002-03 as stated at Schedule 2 (£150,000,000 and £140,000,000 respectively);
- The interest on Scheme liabilities for 2003-04 and 2002-03 (£240,000,000 and £220,000,000 respectively);
- The net outgoings for 2003-04 and 2002-03 in Schedule 2 (£288,470,000 and £261,116,000 respectively);
- The Net Resource Outturn for 2003-04 and 2002-03 (£656,719,000 and £79,987,000 respectively);
- The Outturn Gross Expenditure and the Outturn Net Total for the 2003-04 year (£761,531,000 and £656,719,000 respectively) shown in Schedule 1;
- The comparison between Net Total Outturn and Estimate;
- The Statement of Recognised Gains and Losses; and
- Associated disclosures in the notes to the 2003-04 accounts.

18. The Department told me it intends to take the following steps to verify information provided to the Scheme Actuary and to ensure that such information is readily available for 2004-05 and subsequent years:

- Carry out a detailed analysis of the Scheme Actuary's report specifications and ensure that the production of information from the Teachers' Pensions computer system is compatible with these specifications;
- Improve the production of actuarial data by introducing a range of checks on member records;
- Carry out a comprehensive reconciliation of actuarial data prior to dispatch to the Scheme Actuary;
- Instigate remedial action in order to ensure that issues do not recur; and
- Allocate additional staffing resources to ensure that valuation data is forwarded to the Scheme Actuary on an annual basis.

Excess Vote

Purpose of Report

19. In 2003-04, the Teachers' Superannuation resource account reflects that it expended more resources than Parliament had authorised. By so doing, it breached Parliament's control of expenditure and incurred what is termed an "excess" for which further parliamentary authority is required. I have qualified my opinion on the regularity of expenditure in the Teachers' Superannuation 2003-04 resource accounts in this regard. The purpose of this part of my report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform Parliament's further consideration.

My responsibilities with regard to the breach of regularity

20. As part of my audit of the Teachers' Superannuation financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the resource accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are "regular". In doing so, I have had regard to parliamentary authority and in particular the Supply limits Parliament has set on expenditure.

21. By incurring expenditure that is unauthorised and is thus not regular, the Scheme has breached Parliament's controls.

Background to the excess

22. Parliament authorises and sets limits on departmental expenditure on two bases – 'resources' and 'cash'. Such amounts are set out in Supply Estimates for which Parliament's approval and authority is given in annual Budget Orders.

23. By this means, Parliament has authorised a Request for Resources for the Scheme. It thereby authorises amounts for current expenditure which are net of forecast income, known as operating Accruing Resources. Parliament sets limits on the amount of operating Accruing Resources that can be applied towards meeting expenditure. The amounts authorised for Requests for Resources and operating Accruing Resources together represent a

limit on the gross current expenditure that may be incurred.

Limits

24. The limits described above for the Scheme were set out in the Northern Ireland Main Estimates for 2003-04, as amended by the Northern Ireland Spring Supplementary Estimates. The limit for Request for Resources A was set at net expenditure of £533,794,000 together with a limit on Accruing Resources of £104,812,000. These limits were authorised in the Budget (Northern Ireland) Order 2003 and the Budget (Northern Ireland) (No.2) Order 2003. The breach reported below is against the limit on net expenditure.

Amount of Excess – breach of limit on Request for Resources

25. Schedule 1 to the accounts shows net expenditure on Request for Resources A of £656,719,110.65, which is £122,925,110.65 (23.03 per cent) in excess of the amount authorised. Accruing Resources authorised to be applied in aid of expenditure on this Request for Resources was limited to £104,812,000. This amount was wholly earned and applied. The Department also earned during the year from these income sources an additional £684,085.97 (of which £99,375.34 is included in debtors as at 31 March 2004). This is shown as Income not Accruing Resource, payable to the Consolidated Fund at note 19 on page 30. It is proposed to ask Parliament to increase the limit on Accruing Resources by this amount to allow it to be applied towards meeting the excess on this Request for Resources, and to authorise the balance of £122,241,024.68 as additional use of resources by an Excess Vote.

Details and causes

26. As explained by the Department in the footnote to Schedule 1 at page 17 of the accounts, the Excess arose due to:

(i) a miscalculation of the amount of prior period adjustment recording the net increase in Superannuation Scheme liabilities in 2001-02 and 2002-03 (£104.6 million);

(ii) the effect of a revised Scheme valuation, received in July 2004, which increased Scheme liabilities by £14.4 million; and

(iii) higher than expected outgoings of £4 million.

I asked the Department why the miscalculation at (i) had arisen. I was told that the increase in Superannuation Scheme liabilities in 2001-02 and 2002-03 had been mistakenly calculated as the total of the current service cost for each of those years, whereas it should also have included interest on Scheme liabilities and been offset by the use of provision. In respect of item (ii), I asked why the Scheme valuation had required to be revised in July 2004. The Department told me that under paragraph 15.5.3b of the Northern Ireland Resource Accounting Manual it is required to obtain a report of the Scheme Actuary which includes the results of the Actuary's investigation into the value of the Scheme's total future pension liabilities.

The Department also told me that outgoings were £4 million more than expected because, when estimating the outgoings, the Department had been unaware that a provision for transfers and enhancements should also have been included in this figure.

Action taken by the Department to help prevent a recurrence

27. The Department told me it had taken the following steps to help prevent a recurrence:

- The three elements of the excess arose due to unfamiliarity with the complexities of applying the Financial Reporting Standard 17 requirements to Estimates for the first time in 2003-04. The preparation of the estimates under these new arrangements requires inputs from various parts of the Department (including contact with the Scheme Actuary) and an appreciation of the nature, scope and inter-relationships between the various pieces of information required. To achieve this in the future, the Department's Teachers' Superannuation, Financial Planning and Accounts Branches will be collaborating more closely to ensure that all necessary information is provided and its implications appreciated;
- The receipt of an interim valuation after the end of the Estimates year, and well after the Spring Supplementary Estimates had to be prepared, increased Scheme liabilities gave rise to part of the 2003-04 excess. As future annual valuations may well have an impact on liabilities, the Department will be contacting the Scheme Actuary to see if estimates of future changes in liabilities can be obtained in advance of Spring Supplementary Estimates being prepared; and
- As the prior year element of the Estimate was specific to the first year of Financial Reporting Standard 17 Estimates, the associated element of the excess is specific to 2003-04. However, the above action is aimed at ensuring that any future period adjustments reflect the appropriate requirements.

Conclusion

28. On the basis of my findings at paragraphs 11 to 17, I am unable to form an opinion on the Department of Education – Teachers' Superannuation resource account. I disclaimed my audit opinion because of this. In these respects I am unable to determine if proper accounting records had been kept and I did not receive all the information and explanations I required for my audit.

29. In respect of the matters reported at paragraphs 5 to 7, I concluded that the rate of employers' contributions payable to the Scheme during the year ended 31 March 2004 were not paid in accordance with the recommendation of the Scheme Actuary and I qualified my opinion on the regularity of income accordingly.

30. In respect of the matters reported at paragraphs 19 to 25, I concluded that net resource expenditure of £122,925,110.65 was in excess of the amount authorised by Parliament for Request for Resources A and that it was therefore irregular. I qualified my opinion on the regularity of expenditure accordingly.

Annex

Department of Education – Teachers Superannuation Resource Account 2003-04

With reference to paragraph 6 of my report, the relevant extract from my report on the 2001-02 resource account setting out the reasons given to me by the Department for not implementing the Actuary's recommended employers' contribution rate from that year is set out below.

"12. Current regulations (The Teachers' Superannuation Regulations (Northern Ireland) 1998) require employers to pay contributions in line with the rate specified by the Actuary. I understand the Department did not implement the recommended rate on grounds that:

- the 1991 actuarial valuation contained caveats regarding the patchiness and reliability of the data provided by the Department on which it was based; and
- the Department expected the 1996 actuarial valuation to be completed for implementation by April 2001 at the latest, and any change to the contribution rate would best be decided on the basis of both valuations, particularly as the data underlying the 1996 valuation was regarded as more reliable by the Department."

Department for Employment and Learning- Update on Potentially Irregular Expenditure on the Individual Learning Accounts Scheme and Issues Arising from the Learndirect Programme

Update on Individual Learning Accounts Scheme

1. I qualified my opinion on the Department for Employment and Learning (DEL) 2001-02 Resource Accounts because of potentially irregular expenditure on the Individual Learning Accounts (ILA) Scheme. I did not qualify my opinion on the 2002-03 Resource Account but reported on the disappointing lack of progress made by the Department towards recovering irregular expenditure from training providers.

2. My 2001-02 report referred to potentially irregular expenditure of between £1.3 million and £2 million over the lifetime of the ILA Scheme. In that report I made several recommendations on further investigations and action required by the Department to:

- properly quantify the extent of any fraud within the scheme in Northern Ireland and quantify the total value of the irregular payments;
- to finalise the review of the validation check, any associated outstanding payments, and implement the recovery of any irregular payments; and
- pursue recovery from any provider where applicable.

Failure of the Department to seek prompt recovery

3. In October 2003 my staff reviewed the progress made on the recommendations and found that only limited progress had been made by the Department towards recovering irregular expenditure from training providers. Capita Business Services Limited was the firm originally appointed to manage and administer the ILA scheme. A number of steps had been taken by the Department for example to obtain data from Capita and to validate amounts which need to be pursued. Legal advice on the basis for seeking recoveries was also sought. This report sets out developments and progress made by the Department over the following 12 months.

What progress has been made in the past 12 months?

4. Although some limited progress has been made by the Department this has yet to result in the commencement of a recovery process from ILA providers and substantial further work is still required before the Department can actively commence the pursuit of recoveries from providers.

5. I emphasised in my 2002-03 report that the Department needed to commit sufficient resources to properly quantify the extent of any fraud and recover any overpayments it was

already aware of. The Department has since set up a small team to take forward my recommendations.

6. The Department told me that the team completed a detailed exercise on the existing consultants report in August 2004 to assess the scope to pursue monies that may have been paid out irregularly to any providers. This exercise identified extensive limitations in the data available from the validation exercise for the purposes of confirming actual amounts and pursuing recovery in individual cases.

7. In light of the concerns about the data the Department intends to commission further consultants to audit, initially, a sample of 6 ILA providers who collectively received 57% of the potentially irregular payments made to companies in Northern Ireland still trading. The Department will then seek recovery of irregular payments where due in these cases and, depending on results, consider the value of extending the audit activity to additional providers.

8. It is my view that had adequate resources been made available to this matter immediately after the closure of the scheme and the identification of widespread abuse at national level, more significant progress could have been made by the Department in pursuing recoveries.

Learner Contribution Guidance

9. A key principle of the design of the ILA scheme was that individuals were expected to provide a contribution to their learning. As stated in paragraph 2 irregular expenditure in the scheme in Northern Ireland was estimated in my 2001-02 report at up to £2 million. Of this estimated irregular expenditure, £794,000 related to payments made by the Department in respect of cases where learner contributions were not made.

10. In February 2004 the Department obtained legal advice on the recoverability of payment in cases where personal contributions were not paid. The legal advice confirmed that the scheme regulations did not require learners to pay personal contributions towards the cost of learning. The Department has advised that this legal view is consistent with the legal advice provided to the Department for Education and Skills in England/Wales.

11. The Department's position therefore is that payments in respect of learners who did not make personal contributions were not irregular in that contributions were not a definite requirement under the NI Regulations nor under the terms and conditions of the NI scheme.

12. However in my view if this legal advice is correct this means that the scheme regulations were defective and at odds with one of the core principles of the scheme which was that learners should make a financial contribution.

Conclusion

13. It is a matter of considerable concern that almost three years after the closure of the scheme providers have not been contacted and recoveries actively pursued. This sends the wrong message to those involved in fraudulent activity and represents a missed opportunity for the Department to draw out the lessons learnt from this scheme with the provider network.

Learndirect Programme

14. I have not qualified my opinion on the 2003-04 Resource Account in respect of Learndirect; however I have identified a number of issues of concern during my examination of this programme. There are similarities between the Learndirect and ILA programmes and some of the issues previously reported on ILAs are common to both schemes.

15. In the 2002-03 resource accounts the Accounting Officer included an explanation in the Statement of Internal Control relating to the Learndirect scheme and advised that his Department was seeking retrospective approval from DFP for expenditure on the scheme and acknowledged that failure to seek approval was an oversight they intended to correct.

Background

16. The Learndirect programme in Northern Ireland was introduced in 1999 as part of a national e-learning programme. The primary aim of the programme is to encourage lifelong learning and to increase participation of learning using the latest technologies. The University for Industry Ltd (UfI), an educational charity, was established to operate the programme and is under contract with the Department for Education and Skills (DfES) to do so for England, Wales and Northern Ireland.

17. Total expenditure on the programme from its commencement to 31 March 2004 is approximately £11 million. Expenditure during 2003-04 amounted to £3.7 million.

Lack of Risk Assessment, Business Case and DFP approval

18. When rolling out the Learndirect programme to Northern Ireland the Department did not carry out the usual appraisal and approval procedures and the expenditure was committed without the completion of a:

- risk assessment;
- business case; and
- the necessary approval from the Department of Finance and Personnel.

19. When my staff brought this to the Department's attention the Department applied to DFP for retrospective approval. The Department submitted an abridged economic appraisal justifying the expenditure already incurred on Learndirect along with other information, including a summary of the steps taken to ensure similar breaches of authorisation controls would not happen again. Retrospective approval was received from DFP on 15 December 2003. I asked DFP why it approved the scheme in the absence of a contemporary business case and they advised me that the abridged economic appraisal, which provided evidence of the effectiveness of the scheme, was accepted by DFP on the grounds that this was the roll out of a national policy and that a full review of Learndirect had been commissioned. Account was also taken of the proactive action being taken by DEL to ensure compliance, and assurances were provided by DEL that approval would be sought with a full appraisal for any replacement Scheme.

20. DFP also expressed a view that as this was a national policy being rolled out to Northern Ireland it was not necessary for a completely new appraisal to be carried out.

However, the relevant Accounting Officer in Northern Ireland is ultimately responsible for expenditure incurred by his department. It is therefore essential that if a department is replicating a scheme designed for GB it should still carry out its own full appraisal and risk analysis tailored to local circumstances.

21. The Department has assured me that all new schemes and programmes being developed or piloted by the Lifelong Learning Division will be subject to a formal risk assessment process.

Potential irregular expenditure in respect of learner contributions

22. As was the case for learners on the ILA scheme, learners registering on Learndirect were expected to make a contribution, of up to £25, towards their learning except in circumstances where a waiver had been granted. In this case the circumstances in which a waiver could be granted were clearly specified, for example where the learner was in receipt of certain benefits. The Department's Financial Audit and Support Team (FAST) reported in 2002-03 that during inspection visits to a sample of Learndirect Centres they identified a significant number of instances of Centres not collecting learner contributions in non-waiver cases during the first year of operation of the scheme. Learndirect Centres were entitled to retain the contribution paid and in waiver cases the contribution was paid by the Department.

23. The Department has told me that waivers had been granted correctly to about 38% of learners who engaged in learning in the first year of the scheme. In the remainder of cases, learners either paid contributions or Centres chose to absorb the loss of the learner contribution. FAST staff noticed that in the early stages of the scheme the Department may have absorbed some of the loss of unpaid learner contributions but the potential scale was never fully quantified. I have asked the Department to examine this issue further and advise me of the outcome.

24. In my view the practice of Centres choosing to absorb the learner contributions was not in the interest of the most effective operation of the scheme as intended by the Department's guidelines. Recognising that a key objective of the scheme was to improve take up of, and access to learning, a modest contribution where the learner can afford it can only add to their commitment to undertake and complete the learning.

25. In April 2002 new guidance on learner contributions was put in place. This allowed for different contribution rates ranging from zero to 50 per cent of the agreed tariff and, in particular, prevented Centres from opting not to take the learner contribution in non-waiver cases. The new guidance addressed the issues raised by FAST.

Overpayment of Materials and Learner costs

26. The Departments Financial Audit Support Team (FAST) reports identified that the Department had funded the University for Industry (UfI) and Learndirect Centres for materials and learner support costs on the basis of learner registrations rather than course starts. As a result the Department funded UFI and Learndirect Centres for learning activity that, in some cases, did not occur.

27. The Department carried out an exercise to identify the amount of funding involved. The maximum amount calculated in respect of these overpayments is £460,000 of which £229,000 relates to materials costs and £231,000 is in respect of learner costs for courses not accessed by the students. The Department advised me that this may include some valid payments but the information is not available to refine this.

28. A legal view on the issue of overpayments for materials and learner costs was sought from the Departmental Solicitors Office (DSO) to establish whether recovery action was possible on the basis of scheme guidance and regulations established by the Department. The Department has informed me that although a formal response has not yet been received the DSO has assessed the case and arrived at the conclusion that only £30,000 out of the above mentioned total is recoverable. They said that the remaining payments were all claimed in accordance with the guidelines in operation at the time and would therefore not be recoverable.

29. I see this as a major deficiency in the scheme rules that only £30,000 of the £460,000 can be recovered. These providers received £430,000 that they may not be entitled to and which cannot be recovered as the scheme guidelines had not been subject to adequate legal scrutiny at the outset.

30. The Departmental 2003-04 resource account disclosure note on losses and special payments discloses the full amount of these overpayments.

31. I asked the Department what corrective action had been taken to reduce the risk of payments being made prior to participants starting Learndirect courses. DEL advised me that, since June 2001 payments for learner support were no longer made on registration but on course starts.

Conclusions

32. There are similarities between Learndirect and the former ILA scheme. I have identified several weaknesses which are common to both schemes and which in my opinion may leave this type of programme open to abuse, for example poorly drafted scheme rules which have put the Department in a difficult position in relation to pursuing recovery of overpayments.

33. Key lessons arising from my examination of expenditure on these two schemes are:

- scheme rules should always be subject to close legal scrutiny at the outset to make absolutely sure that there is a legal basis for recovery of overpayments. The rules should also be clear on the need for an upfront payment of a learner contribution before learning commences.
- all new programmes should be subject to a rigorous risk assessment at the outset. The Department has applied its experience from the early operation of Learndirect, to improve controls but a thorough consideration of risks at the planning stage would have prevented many of the problems from occurring in the first place.
- the importance of clearly communicating the requirement for learners to make contributions and for providers to oversee this process.

Disclosure of Information on Land at Stranmillis Teacher Training College

34. Stranmillis College was established in 1921 under the Ministries of Northern Ireland Act 1921. It was subject to the direction and control of the Minister who remained responsible for the administration of the service. Since the 1930s it has in practice been run as an independent body under the management of a board of Governors. As a consequence of legislative changes to introduce devolution the Ministries Act 1921 was repealed by the Departments (NI) Order 1999.

35. The Order did not allow delegation of functions to Officers outside Departments. As a result, the constitutional basis of Stranmillis College was altered and with effect from 1 September 2001 the then Board of Governors ceased to have any statutory basis. A review of the options available to the college was completed in March 2003 which recommended that Stranmillis be incorporated as a legally independent entity and that appropriate governance arrangements be put in place. The next steps are to proceed to consultation with a view to preparing the necessary legislation.

36. In April 2003 the Department of Finance and Personnel (DFP) asked the Department for Employment and Learning (DEL) to account for land and building assets at Stranmillis in its 2002-03 Resource Accounts. Although DFP has legal title and had held the land as part of the Government Estate since the formation of Stranmillis College, DFP considered the asset contributed to the provision of services controlled and funded by DEL. This was based on the use of the government owned land for higher education purposes in line with DEL's departmental objectives. The option of requiring Stranmillis College to account for the assets was ruled out until the legal status of the College has been resolved. However DEL questioned the validity of the requested treatment on the basis that DFP held legal title to the asset, there was no identified precedent, and if the relevant accounting guidance (FRS 5) were to apply the most appropriate Accounts in which to record the asset would be in the College's . The issue remained unresolved during 2002-03 and as a result £41.6 million of land and buildings was unaccounted for. I was not made aware of this until after the audit of the accounts was completed.

37. This raises an important point of principle relating to the duty of a Department to disclose all information and judgements made in preparing a resource account. One way to communicate such issues is through the Letter of Representation which is completed by the Accounting Officer as a normal part of the audit each year. This letter to the C&AG should detail all judgements, estimates and the Departments decisions on the treatment of significant financial issues.

38. Although there is an element of judgment involved in the treatment of these assets I would have expected the Department to disclose to the NIAO the fact that DEL had been asked to include this land in its accounts and was in discussions with DFP on the accounting treatment of the asset. The issue was eventually resolved during 2003-04 and the land and buildings are now included in the fixed assets of DEL pending incorporation of the college.

Department of Health, Social Services and Public Safety - Incorrect Claims for Exemption from Health Service Charges

1. The Department's Resource Accounts include the accounts of the four Health Boards which have I have audited.

2. I have qualified my opinion on each Board's accounts for 2003/04 on the grounds that income due to each Board in respect of Family Practitioner Services was not received due to patients incorrectly claiming exemption from charges.

3. The total loss of income for 2003/04 was estimated by the Central Services Agency to fall between £7.0 million and £9.0 million. The Central Services Agency processes claims and makes payments to contractors providing Family Practitioner Services on behalf of the Boards.

4. I have qualified my opinion on the Department's Resource Accounts as this income due, but not received, has not been applied to the purposes intended by Parliament and is not in conformity with the appropriate authorities.

5. The Department told me that substantial progress has been made in reducing the levels of incorrectness of claims for exemption from prescription charges. By the end of March 2004, the estimated level of income not received due to patients incorrectly claiming exemptions from charges had fallen by some 51 per cent from 1999/00 levels. Also during this period the estimated level of incorrect exemptions rate reduced from 8.14% to 4.4%, with cumulative reductions in income not received in excess of £25 million.

6. A Fixed Penalty Charge Scheme had been implemented by the Department's Counter Fraud Unit, whereby patients who evade charges for prescriptions, dental or ophthalmic treatment are fined. During the 2003/04 financial year Counter Fraud Unit imposed some 1,500 Penalty Charges and 480 Surcharges on individuals who did not pay for their original health charges. In addition, approximately 270 cases were taken through the Small Claims Court for recovery of charge, penalties and other associated costs.

7. During February and March 2004, the Department launched a publicity campaign aimed at further deterring individuals from evading prescription charges. Independent post-campaign market research concluded that the campaign had been highly successful in increasing public awareness of this issue.

Department of Health Social Services and Public Safety - Health and Personal Social Services Superannuation Scheme

Resource Account 2003-04

General and accounting background

1. The Health and Personal Social Services Superannuation Scheme is an unfunded contributory pension scheme for employees of the Health and Social Services Boards and Trusts as well as a number of other health related bodies. It is managed by the Department of Health, Social Services and Public Safety and operates under the Health and Personal Social Services (Superannuation) Regulations (Northern Ireland) 1995.

2. The Department prepared annual cash-based appropriation accounts for the Scheme until 31 March 2001. From 2001-02 onward it has produced annual resource accounts. In 2001-02 and 2002-03 these resource accounts were not required to take account of obligations to pay pensions and compensation benefits which fell due after the relevant year end. However the account did comply with the transitional requirement of Financial Reporting Standard 17 "Retirement Benefits" which required increased levels of disclsoure in relation to obligations to pay pensions and compensation. However, central government adopted Financial Reporting Standard 17, "Retirement Benefits", for application in 2003-04 and in subsequent resource accounts. The requirements of this Standard are reflected in the Northern Ireland Resource Accounting Manual (NIRAM) with which resource accounts must comply. Consequently, the Scheme's liabilities are set out in the 2003-04 accounts for the first time.

3. The effect of this change is that the accounts now provide information on and account fully for the valuation of unfunded pension liabilities to be met in future years, the movement in those liabilities over the year and their interest cost. In previous years the accounts focused on reporting the costs of pensions and other benefits paid and income received from members and their employing authorities. Prior year comparative amounts have been re-stated.

Qualification on the amount of the Scheme liabilities

4. NIRAM requires that full actuarial valuations of scheme liabilities by a professionally qualified actuary should be obtained at intervals not exceeding four years. The actuary should review the most recent actuarial valuation at the balance sheet date and update it to reflect current conditions.

5. As the last full and complete valuation was done five years ago at 31 March 1999, rather than the four years now required by NIRAM, the Department was unable to comply with this requirement .The valuation reflected in the accounts was based on an actuarial assessment of the Scheme at 31 March 2004 . This assessment was not a full valuation of the

Scheme but rolled forward the actuarial liability at 31 March 1999 to take account of increases to the pensionable salary payroll, the pensioner payroll and the number of deferred pensioners between 31 March 1999 and 31 March 2004.

6. In the absence of a full actuarial valuation within the four years preceding 31 March 2004 I was unable to confirm whether the following are stated fairly:

- the pensions provisions at 31 March 2004 and 31 March 2003 in Schedule 3 (£4,391,996,000 and £3,718,452,000 respectively);
- the net liabilities at 31 March 2004 and 31 March 2003 in Schedule 3 (£4,393,924,000 and £3,720,159,000 respectively) ;
- the pension cost for 2003-04 and 2002-03 in Schedule 2 (£210,000,000 and £180,000,000 respectively);
- the interest on the scheme liabilities for 2003-04 and 2002-03 in Schedule 2 (£230,000,000 and £190,000,000 respectively);
- the net outgoings for 2003-04 and 2002-03 in Schedule 2 (£303,823,000 and £270,946,000) respectively;
- the Net Resource outturn for 2003 -04 and 2002-03 in Schedule 2 (£754,244, 000 and £45,693,000 respectively);
- the outturn Gross Expenditure and outturn Net Total 2003-04 in Schedule 1; (£879,877,000 and £754,244,000 respectively);
- the comparison between net total Outturn and Estimate 2003-04;
- Statement of Recognised gains and Losses 2003-04; and
- associated disclosures in the notes to the 2003-04 accounts.

Conclusion

7. On the basis of my findings at paragraphs 4-6 I am unable to form an opinion on the Health and Personal Social Services Pension Scheme Resource Account for 2003-04 and I have disclaimed my opinion on these accounts. This does not imply that the integrity of transactions regarding the inflow and outflow of cash has deteriorated. It does, however, mean that the Department has not complied with the higher standards required under NIRAM. The Department have informed me that they had commissioned a full and formal valuation as at 31 March 2003, but were unable to obtain the results within the prescribed timescales for the completion of the Resource Accounts.

Department for Social Development

Part 1 : Introduction and Executive Summary

Introduction

1.1 The Department for Social Development is responsible for administering a wide range of expenditure aimed at helping those in need, promoting measurable improvements to housing in Northern Ireland and tackling disadvantage amongst individuals and communities. Through the Social Security Agency and the Northern Ireland Child Support Agency, the Department is responsible for the administration of social security benefits and child support. The Northern Ireland Housing Executive is responsible for administering Housing benefit. The Department's financial assistance to the housing and urban regeneration sectors is administered through its Resources, Housing and Social Security Group and the Urban Regeneration and Community Development Group respectively. In 2003-04, the Department accounted for expenditure of £4.2 billion on these areas, including associated administration costs, in its consolidated Resource Account.

1.2 This report:

- summarises the results of my audit and sets out the reasons for my qualified audit opinion (Part 1);
- reviews the results of my audit of expenditure on social security benefits and examines the reasons for the uncertainties over certain debtor and creditor balances in the Balance Sheet (Part 2);
- reviews the results of my audit of grants paid by the Department to Registered Housing Associations (Part 3); and
- reviews the results of my audit of expenditure by the Department on urban regeneration and community development grants (Part 4).

Executive Summary

On the reasons for my qualified audit opinion

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

- significant levels of estimated fraud and error in certain social security benefits;
- weaknesses in the Department's audit trails arising from deficiencies in the interaction between the Department's Programme Accounting Computer System (PACS) and its various benefit systems which resulted in limitations in the evidence available to support significant social security programme debtor and creditor balances;
- weaknesses in financial control and monitoring of expenditure in relation to grants paid to Registered Housing Associations; and
- significant weaknesses in financial control and monitoring of expenditure in relation to urban regeneration and community development grants to voluntary and community bodies.

Fraud and Error in Social Security Benefits

1.4 The Department estimates that in 2003-04 there were losses in Income Support, Jobseeker's Allowance, Disability Living Allowance, Attendance Allowance, Carer's Allowance, Housing Benefit, Retirement Pension and Bereavement Benefits and Incapacity Benefit as a result of errors by officials, errors by customers and proven and suspected fraud by customers amounting to £112.3 million which is 3.2 per cent of expenditure on benefits.

1.5 I have qualified my audit opinion on the Resource Account due to the significant level of estimated fraud and error in social security benefits.

Debtor and Creditor Balances

1.6 As a result of weaknesses in the Department's audit trails mainly arising from deficiencies in the interaction between the Department's Programme Accounting Computer System and its various benefit systems, there were serious limitations in the evidence to support my audit of certain significant social security programme debtor and creditor balances. There is significant uncertainty over the accuracy and completeness of these amounts, which total around £55 million gross. I have assessed whether the impact of the uncertainty over these balances results in the balance sheet giving a misleading view and have concluded the impact is that the net assets of the Department may be significantly misstated. I have therefore qualified my audit opinion on the Resource Account because of the limitations in evidence.

Grants to Registered Housing Associations

1.7 On the basis of my specific audit findings, I have concluded that the Department's financial controls and monitoring of grants to Housing Associations continue to be insufficient. In addition, I have concerns over the adequacy of the Housing Associations' financial control and monitoring of expenditure on individual schemes. Weaknesses identified are detailed in Part 3 of this report.

1.8 I am encouraged to see the Department has been proactive in ensuring previous audit recommendations and good practice is being promoted in Housing Associations and the Housing Associations have indicated that they are implementing improved controls and procedures in line with Departmental and audit recommendations.

1.9 In the absence of proper controls I have qualified my audit opinion on the Resource Account.

Urban Regeneration and Community Development Grants to Voluntary and Community Bodies

1.10 On the basis of my audit findings, I have concluded that the Department's financial controls and monitoring of expenditure in relation to grants to voluntary and community bodies continue to be inadequate. Weaknesses identified are detailed in Part 4 of this report.

1.11 The Department has or is currently putting various measures in place to improve financial control and monitoring of expenditure. These are detailed at paragraphs 4.30 and 4.31 of this report.

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

Part 2: Schedule 2 - Qualified Audit Opinion Arising from the Level of Estimated Fraud and Error in Social Security Benefits and Schedule 3 - Uncertainties over Certain Debtor and Creditor Balances

Introduction

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

2.2 During 2003-04, the Department accounted for expenditure of £1.66 billion on non - contributory social security benefits, £1.46 billion on contributory social security benefits and £67 million on social fund benefit expenditure, administered by the Social Security Agency. This included Income Support £725 million, Jobseeker's Allowance £85 million, Disability Living Allowance £516 million, Attendance Allowance £181 million, Carer's Allowance £81 million, Retirement Pension & Bereavement Benefits £1,119 million and Incapacity Benefit £318 million. Additionally, the Department accounted for expenditure of £352 million on housing benefit, which is administered by the Northern Ireland Housing Executive (NIHE).

2.3 This part of my report sets out:

- the background and the accounting arrangements for this expenditure (paragraphs 2.4 to 2.6);
- NIAO audit approach and findings (paragraphs 2.7 to 2.32); and
- summary of audit findings and conclusion (paragraphs 2.33 to 2.36).

Background and the accounting arrangements for this expenditure

2.4 Part 1 of this report explains the structure of the Department. The Social Security Agency (the Agency) is an Executive Agency within the Department. As the Agency is part of the DSD, benefits expenditure accounted for within the Agency Account is also included within 2003-04 DSD Resource Account programme expenditure.

2.5 I reported the results of my audit of the 2003-04 Social Security Agency Account on the 21st October 2004 (HC 1138 & NIA 113/03). The Agency Account was qualified because of:

- significant levels of estimated fraud and error in certain social security benefits; and
- limitations in the evidence available to support significant social security programme debtor and creditor balances.

This qualification of the Agency Account also impacts upon the Department's Resource Account.

2.6 As well as the Social Security Agency benefits expenditure, the Department's Resource Account also includes housing benefit which is administered by NIHE and accounted for by the Department. I reported the results of my audit of the 2003-04 NIHE Accounts on 9th July 2004. The NIHE Accounts were qualified because of a limitation of audit scope as a result of the estimated losses due to fraud and error within Housing Benefit. This qualification also impacts upon the Department's Resource Account.

NIAO Audit Approach

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

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

2.9 The Agency uses the Programme Accounting Computer System (PACS) in the preparation of their accounts. This system is operated and managed by the Department for Work and Pensions (DWP) in Great Britain. However there are currently deficiencies in the interaction between PACS and its various benefit information systems which have led to limitations in the evidence available to support significant social security programme debtor and creditor balances. My staff reviewed progress made by the Agency in addressing these issues.

Findings

2.10 This section:

- reviews the results of my audit of expenditure on contributory, non -contributory and means tested social security benefits administered by the Social Security Agency and NIHE; and
- examines the reasons for the uncertainties over certain debtor and creditor balances in the Balance Sheet.

Fraud and Error in Social Security Benefits

2.11 The Department's estimate of the levels of fraud and error in non -contributory and contributory benefits for 2003-04 is summarised below in Figure 1.

Figure 1: Estimated level of fraud and error 2003-04

	Benefit	**£million** [1]	**% expenditure**	**2002-03 £million (% expenditure)**
Non - contributory	Income Support	30.8	4.2%	37.5 (5.5%)
	Jobseeker's Allowance	9.6	11.3%	11.9 (11.6%)
	Disability Living Allowance	33.5	6.5%	43.6 (9.1%)
	Attendance Allowance	3.6	2%	8.7 (4.9%)
	Carer's Allowance	7.3	9%	4.4 (6%) [2]
	Housing Benefit	13.4	3.8%	27.9 (7.5%)
Contributory	Retirement Pension & Bereavement Benefits	10.5	0.9%	41.1 (3.9%)
	Incapacity Benefit	3.6	1.1%	16.3 (5.2%)
	TOTAL	**112.3**	**3.2%** [3]	**191.4 (5.2%)**

Note 1: Estimated level of fraud and error
Note 2: Comparative Carer's Allowance figures are from 1999 (see paragraph 2.19)
Note 3: % of total benefit expenditure

Source: Figures provided by the Department

Total levels of estimated fraud and error

2.12 Figure 1 above indicates a fall in the total estimated levels of fraud and error reported by the Department from £191.4 million (representing 5.2 per cent of total benefit expenditure) in 2002-03 to £112.3 million (3.2 per cent of benefit expenditure) in 2003-04. Whilst this decrease in the levels of estimated fraud and error is encouraging I consider that losses through fraud and error of £112.3 million are still unacceptable.

Income Support/Jobseeker's Allowance

2.13 Figure 2 below breaks down the level of fraud and error from Figure 1 into the following four categories: customer fraud, suspected fraud, customer error and official error. In its two most recent benefit reviews for Income Support and Jobseeker's Allowance the Agency only reports customer fraud, customer error and official error. However, I have included the Agency's estimate of suspected fraud in both Figure 1 and Figure 2; this is further explained in paragraph 2.15 below.

2.14 I note that suspected and customer fraud has increased from £13.1 million at March 2003 to £14.9 million at March 2004 for Income Support while it has decreased from £10.5 million at March 2003 to £8.1 million at March 2004 for Jobseeker's Allowance. While the improvement in Jobseeker's Allowance is encouraging, £23 million of loss through estimated fraud is, in my view, unacceptable. Furthermore I am concerned that over £10 million was lost in 2003-04 as a result of errors by officials. The Agency has advised me that it regards errors of this scale as unacceptable. However there has been a significant reduction (£8.4million) since 2002-03 in levels of official and customer error which is an indication that the activities in the plans mentioned below are having a positive effect. To improve performance on both payment accuracy and decision making further the Agency has told me that their District / Divisional Managers, together with their Programme Protection Managers, continue to use the Unit's findings to determine local plans for continuous improvement of standards across all benefits. These plans include a range of activity including training that is targeted at identified weaknesses and complex areas, increased levels of checking, more frequent interventions on cases which are deemed to be susceptible to error and more regular sharing and feedback of information through Staff Forums. Nevertheless these levels of fraud and error remain a major concern and the Agency will continue to treat them as high priority and will keep on working to achieve further reduction.

Figure 2: Estimated level of fraud and error in Income Support and Jobseeker's Allowance

	Income Support		**Jobseeker's Allowance**	
Category	**Estimated Financial Error * £M @ 31.3.04**	**Estimated Financial Error * £M @ 31.3.03**	**Estimated Financial Error * £M @ 31.3.04**	**Estimated Financial Error * £M @ 31.3.03**
Customer Fraud	9.2 (1.2%)	5.9 (0.9%)	6.4 (7.5%)	7.8 (7.6%)
Suspected Fraud	5.7 (0.8%)	7.2 (1.0%)	1.7 (2.0%)	2.7 (2.6%)
Customer Error	6.5 (0.9%)	9.4 (1.4%)	0.6 (0.7%)	0.3 (0.3%)
Official Error	9.4 (1.3%)	15.0 (2.2%)	0.9 (1.1%)	1.1 (1.1%)
TOTAL	**30.8 (4.2%)**	**37.5 (5.5%)**	**9.6 (11.3%)**	**11.9 (11.6%)**

* Estimated annual expenditure error and percentage of expenditure

Suspected fraud

2.15 As in previous years I have included an estimate of the level of high suspicion fraud for those benefits where a benefit review exercise has been completed as I consider this is an indication of the level of fraud in the benefits system. High suspicion fraud is recognised where sufficient evidence exists to warrant further investigation by the Agency. The Agency has advised it is important to recognise that these suspected fraud cases provide only an indication of possible fraud and error. The Agency has in place established, standardised procedures for the further assessment of these cases resulting in the correct classification and recording of the case under a more specific fraud category where appropriate. Consequently, the Agency therefore believes that the exclusion of suspected fraud cases actually provides a more accurate, consistent and meaningful indication of the actual levels of fraud. It also brings the Agency into line with practices used by the Department of Work and Pensions in GB. The Agency is committed to making fraud estimation procedures less subjective and more robust, and they will pursue this matter with the NIAO throughout the 2004-05 year.

Disability benefits

Disability Living Allowance

2.16 The estimated monetary value of official error in Disability Living Allowance (DLA) payments was £33.5 million for 2003-04 (6.5 per cent of expenditure) which is an improvement compared to £43.6 million reported in 2002-03 (9.1 per cent of expenditure). These estimates of error come from financial accuracy exercises carried out by the Agency and referred to in paragraph 2.8. The Agency has also undertaken a Disability Living Allowance benefit review. Unfortunately the result of this review will not be reported until later in 2004. However, the previous benefit review for Disability Living Allowance published in July 2002 estimated a loss of £41.7 million (representing 9.3 per cent of expenditure). Taken together the financial accuracy exercise and Benefit Review provide a measure of the monetary implications of internal and external incorrectness in DLA payments. However, as the sample of cases they examine cover different periods and are drawn from the caseload in different ways, it would therefore be inappropriate to add the two amounts together to arrive at a total sum of incorrectness. The Agency has advised me that they are currently considering how levels of fraud and error reported by Benefit Review should be reconciled with the results of the financial accuracy exercise for 2003-04. As the results have not yet been reconciled I am unable to evaluate the overall level of error. Nonetheless, the overall amount of error - from whatever source - is a substantial sum and it is my view that it is greater than the £33.5 million emerging from the financial accuracy exercise. I intend to review the results of the 2003-04 Benefit Review as part of the 2004-05 audit and will report further in due course, if necessary. This issue will also be addressed in my report on Decision Making and Disability Living Allowance which will be published shortly.

2.17 The Agency told me that it is widely recognised that this is a particularly difficult and complex benefit to administer. It is targeting those areas most prone to error, for example the standard of evidence gathering and the interpretation of detailed medical evidence, which can be particularly problematic in this benefit. This involves improving the training, feedback and support mechanisms for Decision-makers to ensure that standards improve. For example, work is ongoing with the Disability Living Allowance Advisory Board (NI) to assist in the development and delivery of refresher training on a number of complex medical conditions.

Attendance Allowance

2.18 The estimated monetary value of official error in Attendance Allowance payments was £3.6 million for 2003-04 (2 per cent of expenditure) as compared to £8.7 million for 2002-03 (4.9 per cent of expenditure). The Agency has advised that this improvement can be attributed to addressing a particular problem area, which had been identified during the previous year's monitoring. Revised guidance was issued to Decision-makers on an interpretive matter and this corrective action significantly reduced both the amount and value of error detected.

Carer's Allowance[1]

2.19 The last benefit review for Invalid Care Allowance was published by the Agency in 1999 and I reported on the Agency's performance in my report on Vote 18, Social Security - Administered by the Social Security Agency (NIA 36/00). In 2003-04 the Agency estimates losses through fraud and error to be £7.3 million[2] or 9 per cent of total expenditure compared to an estimated loss of £4.4 million or 6 per cent of total expenditure in 1999-00[3].

2.20 I am concerned that the level of loss through fraud and error has increased for this benefit. The Agency has told me that the measures currently in place within Carer's Allowance designed to reduce fraud and error are being reviewed following the latest Benefit Review findings, in particular to consider how risk management and risk assessment might lead to better targeted intervention.

Housing Benefit

2.21 The Department estimates that losses through fraud and error for Housing Benefit in 2003-04 amounted to £13.4 million or 3.8 per cent of total expenditure, as compared to £27.9 million or 7.5 per cent of total expenditure for 2002-03. The 2003-04 losses includes £5 million or 1.42 per cent in respect of suspected fraud, this compares to £13.2 million or 3.5 per cent. While performance appears to have improved considerably since last year I am still concerned about losses of this amount. The Department has advised that the Northern Ireland Housing Executive has continued to address the losses through fraud and error and has recently completed a Fraud and Error Strategy review where they have (i) identified the risks of fraud, customer error and official error, (ii) evaluated existing measures to address these risks, (iii) set out standards, targets, performance indicators etc. and (iv) will initiate a review of resources by January 2005. In addition the Department has adopted the national target set by government to reduce fraud and error by 25 per cent by 2006.

Contributory benefit expenditure

2.22 This year my report includes for the first time estimated levels of official error for contributory benefit expenditure as I have received for 2003-04 sufficient assurance from the NAO regarding this expenditure. NAO will certify and report on the 2003-04 Northern Ireland National Insurance Fund White Paper Accounts in due course. The estimated monetary value of official error for both Retirement Pension & Bereavement Benefits and Incapacity Benefit has decreased considerably from the 2002-03 figures of £41.1 million and £16.3 million respectively to £10.5 million[4] and £3.6 million[4]. NAO have advised that this improvement has mainly arisen from significant progress by the Department in retaining evidence to support the expenditure. Benefit Reviews were not carried out by the Department for either of these benefits in 2003-04.

Social Fund benefits expenditure

2.23 I note that the Department has also been able to provide estimated monetary value of error figures for 2003-04 Social Fund benefits expenditure of £1.2 million (1.8 per cent of

1. Following the extension of Invalid Care Allowance to carers' aged 65 plus it was renamed Carer's Allowance from April 2003.
2. Figure includes high suspicion fraud as explained in paragraph 2.15.
3. The 1999 Benefit Review for Invalid Care Allowance covered the period November 1998-June 1999 and therefore did not correspond precisely to the 1999-00 financial year.
4. Figures may be revised subject to audit.

expenditure) as compared to £1.4 million (2.3 per cent of expenditure) for 2002-03. However, as the Department does not consider these results to be statistically valid they do not impact on my audit opinion on the account. Nevertheless, I am concerned about the level of error indicated by the figures and will keep this under review during next year's audit. A separate White Paper Account will also be produced for the 2003-04 Social Fund which I will certify and report on in due course.

Debtor and Creditor Balances

2.24 As noted in paragraph 2.9 my staff reviewed the progress made by the Agency in respect of the following social security programme debtor and creditor balances:

Contributory and Non-Contributory Benefit Overpayment Debtors - £41,126,000 (Gross)

2.25 Overpayments to customers arise as a result of errors by officials and through fraud or error on the part of the customer. When an overpayment is identified, local social security offices notify Debt Management Unit (DMU). DMU records the amount of the overpayment on their debt management system, the Overpayment Recovery System (OPREC) and pursue recovery. However, these and subsequent movements in debts outstanding are posted to the PACS general ledger in total rather than by the individual debt amounts. As a result, no listing of individual customers owing money was available from the PACS general ledger system in relation to 2003-04 for my staff to test.

2.26 At 31st March 2004 the debtor balance recorded in the PACS general ledger did not agree with the balance from the OPREC collated database. The Agency considered the PACS general ledger balance to be the more accurate and, being lower, the more prudent balance.

2.27 In the absence of a satisfactory audit trail between the PACS general ledger and the more detailed information held on the OPREC system, my examination of overpayment debtors was again severely limited. Therefore, having taken account of evidence that the information held on the OPREC system is unreliable and incomplete, I conclude that there is significant uncertainty over the accuracy and completeness of the debtors balance held on the PACS general ledger. I am disappointed that non -system weaknesses in the OPREC system still exist despite the efforts of the Agency during the year.

2.28 The Agency has told me it expects that significant progress will have been made towards the implementation of a software accounting package that will cover debts arising from the benefit systems. This new package should be able to provide an individual listing of customer debts for the 2005-06 financial year. I intend to review progress made to resolve this issue during my audit of the 2004-05 Departmental Resource Account.

Encashment Control Creditor £13,655,000 [5]

2.29 This balance represents the Agency's estimate of the total value of order book foils and girocheques, which had been issued to customers and are due for encashment at Post Offices or Banks, but remained unencashed at the year-end.

5. Encashment control balance of £14,170k less the payable order element of £515k for which the Department can provide detailed accounting information.

2.30 The Agency is unable to confirm the actual encashment of individual order book foils and the majority of girocheques as encashment data from the Agency's paying agents does not provide this level of detail. Although the Agency's accounting systems can capture detailed accounting information for individual order book foils and girocheques that are system generated and issued, it cannot capture similar information for order books and girocheques that are produced and issued manually to customers. As a result the Agency is unable to perform a full reconciliation between the general ledger balances and statements from paying agents.

2.31 I therefore conclude that there is significant uncertainty over the encashment control balance and I have qualified the Agency's accounts in respect of this issue.

2.32 The Agency expects that the ongoing implementation of Direct Payment of benefits[6] should reduce this creditor balance substantially and the Agency is currently investigating how expected exceptional payments will be accounted for. Furthermore the Agency is also investigating options to obtain individual encashment information for girocheques. I will review progress on these issues during my audit of the 2004-05 Departmental Resource Account.

Summary of audit findings

Fraud and Error in Social Security Benefits

2.33 The Department estimates that in 2003-04 there were losses in the non -contributory benefits of Income Support, Jobseeker's Allowance, Disability Living Allowance, Attendance Allowance, Carer's Allowance (previously known as Invalid Care Allowance) and Housing Benefit of £98.2 million which is 5.1 per cent of expenditure on these benefits. Furthermore they estimate losses of £14.1 million (1.0 per cent of expenditure) in the contributory benefits of Retirement Pensions & Bereavement Benefits and Incapacity Benefit.

2.34 The Department also estimates losses of £1.2 million in 2003-04 social fund benefits expenditure. However, as they do not consider these results to be statistically valid they do not impact on my audit opinion on the account.

Debtor and Creditor Balances

2.35 As a result of weaknesses in the Department's audit trails, mainly arising from deficiencies in the interaction between the Department's Programme Accounting Computer System and its various benefit information systems, there were serious limitations in the evidence to support my audit of the benefit overpayment programme debtor and encashment control creditor balances within the DSD Resource Account. There is significant uncertainty over the accuracy and completeness of these amounts, which total around £55 million gross.

6. PSA Target 1.5 is to make significant progress towards modernising welfare delivery so that by 2005 85 per cent of customers have their benefit paid into their bank accounts.

Conclusion

2.36 In forming my audit opinion I am required to confirm that the account is free from material misstatement, whether caused by error, fraud or irregularity. I have qualified my audit opinion due to the significant level of estimated fraud and error in social security benefits (see paragraph 2.33). I have assessed whether the impact of the uncertainty over significant debtor and creditor balances results in the balance sheet giving a misleading view (see paragraph 2.35) and have concluded the impact is that the net assets of the Department may be significantly misstated.

Part 3: Schedule 2 - Qualified Audit Opinion Arising From Weaknesses in Financial Control and Monitoring of Expenditure in Relation to Grants to Registered Housing Associations

Request for Resources B : Promoting Measurable Improvements to Housing in Northern Ireland

Introduction

3.1 One of the Department's key strategic objectives is "to promote measurable improvements to housing in Northern Ireland". The Departmental Resource Account (Request for Resources B) provides for expenditure by the Department for Social Development on Housing Association Grant (HAG) to registered Housing Associations. During 2003-04, the Department paid out £78.8 million in respect of Housing Association Grant.

This part of the report details:

- Background to the establishment of Housing Associations and the Department's control mechanisms over Housing Associations (paragraphs 3.2 to 3.5);
- An overview of the Housing Association Grant scheme (paragraphs 3.6 and 3.7);
- NIAO Audit Approach and Findings (paragraphs 3.8 to 3.36); and
- Summary and Conclusion (paragraphs 3.37 to 3.41).

Background

3.2 Registered Housing Associations were first set up in 1976. There are 38 Housing Associations in Northern Ireland providing social housing for rent, and one, the Northern Ireland Co-Ownership Housing Association, which provides the opportunity for those on low income to become homeowners.

3.3 The Housing Policy Review of 1996 transferred responsibility for all future new build social housing provision from the Northern Ireland Housing Executive to Housing Associations. Housing Associations therefore now build all new general and special needs housing in Northern Ireland. The Housing Executive retains a responsibility to develop in circumstances where Housing Associations are unable to do so.

In relation to the payment of grant to Housing Associations, the Department is responsible for the issue of guidance and policy directives to them. In addition, it has a statutory duty to consult with representative housing association bodies.

3.4 While the Department is responsible for the payment of grant, it has devolved the control and monitoring of expenditure to the individual Housing Associations by way of "Self Certification" procedures (paragraph 3.7). The primary means through which the Department achieves regulation and monitoring through its Housing Associations Branch (excluding the Northern Ireland Co-Ownership Housing Association (see paragraph 3.32)) are:

- Registration - the criteria for registration of new Associations;
- Scheme approval - schemes submitted for approval must conform to the requirements of the Housing Association Guide;
- Performance returns - performance documentation issued by and returned to the Department;
- Investigation/Verification Visits - verification and investigatory visits are carried out following return of performance documentation; and
- Scheme Audit - the process by which the Department checks the validity and accuracy of the certifications given by an Association as part of the scheme work procedures. The Department also monitors the consistency of the housing produced in line with the Department's Design and Contracting Requirements.

3.5 I have qualified my audit opinion in this area since 2001-02 on the basis of inadequate control and monitoring of expenditure. I am encouraged to see the Department has been proactive in ensuring previous audit recommendations and good practice are promoted in Housing Associations. However, I recognise that my audit testing in 2003-04 may not incorporate the more recent schemes where any improvements in control and monitoring is likely to be realised. This is examined further in paragraph 3.16.

Overview of the Housing Associations Grant Scheme

3.6 The Housing (NI) Order 1992 introduced new mixed funding arrangements for Housing Associations undertaking scheme development. The provision of general social housing is funded through a mix of sources; approximately 70 per cent is paid by the Department and the remainder through private finance. Supported Housing attracts 100 per cent Departmental grant funding. In 2003-04 the amount of Housing Association Grant paid to Housing Associations who provide accommodation for rent in Northern Ireland was some £78.8 million (2002-03:£52.6 million).

3.7 The Department's approval system is designed to streamline the development process and relies on a process of "certifications" by Associations to pay grant. Payment of grant to a Housing Association is triggered when it 'certifies' that the following three stages have been completed:

- Acquisition - deemed to be where the association has a contract with the vendor to take ownership of the site/property;
- Start on Site - deemed to be the date when the contractor took possession of the site/property; and
- Practical completion - deemed to be the contract date when the Association took possession of the dwelling or when purchase is completed.

The certification framework was introduced to reduce bureaucracy and to require Housing Associations to take a greater share of the risk in developing schemes, thus giving them the incentive to develop more efficiently.

NIAO Audit Approach

3.8 On the basis of the weaknesses in financial control identified by my audit in 2002-03, I again decided to focus my 2003-04 audit on reviewing the work of the Department's Scheme Audit function (paragraphs 3.11 to 3.15) and specifically testing the operation and adequacy of key financial controls by examining a further sample of schemes (paragraphs 3.16 to 3.29). In this regard, my examination focused on schemes where development had been completed and final grant payments made during 2003-04. This involved reviewing each scheme from application and approval stage, with particular emphasis on:

- the extent to which Housing Associations had adhered to the self certification process made to the Department described in the paragraph 3.7 above;
- the procurement and tendering procedures adopted for professional consultants, contractors and other services;
- the monitoring and control of schemes, including all financial aspects, exercised by Housing Associations;
- the control and monitoring of the schemes exercised by the Department; and
- the extent to which Housing Associations had implemented previous audit recommendations and demonstrated improvement in scheme management.

3.9 The Department's Internal Audit Unit reduced the planned audit programme during 2003-04 in the Housing area to address significant control issues in another area of the Department. However, I have reviewed the work of Internal Audit and detailed my findings below (paragraphs 3.30 and 3.31).

3.10 In addition, I considered the extent of the control and monitoring carried out by the Northern Ireland Co-Ownership Housing Association over it's operations (paragraphs 3.32 to 3.34) and the progress made on the implementation of Constructionline in relation to Housing Association contracts (paragraphs 3.35 and 3.36).

Audit Findings

Review of Scheme Audit

3.11 The Department's control and monitoring of Housing Association Grant is primarily carried out by Housing Associations Branch. The Scheme Audit Team was established in 1998 as an integral part of the new funding arrangements. The process followed by Scheme Audit ensures that Associations are accountable for the public funds they receive and provides assurance to the Department's Accounting Officer that funds are not being exposed to unreasonable risk. Since April 2002, Scheme Audit work has been divided into:

- Development Compliance Audit which focuses on the development issues of schemes with emphasis on the certification process and ensuring that schemes are controlled and monitored by Associations in line with the Housing Association Guide; and
- Minor Works and Validation Audit which aims to confirm that minor issues agreed during the previous development compliance audit have been fully addressed. This includes issues on procurement and procedural requirements and scheme design requirements.

3.12 Where Scheme Audit highlights any significant weaknesses the Department may impose sanctions on a Housing Association by way of reducing financial support or removal from the grant scheme. There are currently five Housing Associations suspended from receiving further scheme approvals as a result of Development Compliance Audits until they can demonstrate that they have introduced acceptable remedial action.

3.13 During 2003-04 Scheme Audit issued 12 reports to individual Housing Associations, nine of these have been finalised.

3.14 My staff reviewed the work of Scheme Audit during the year by examining the 2003-04 work programme and final reports issued to Associations. Their work was found to be comprehensive, well structured and focused. Issues raised were prioritised in terms of importance and good procedures are in place to ensure subsequent follow up of issues raised and implementation of remedial action by Associations. I consider the Scheme Audit function to be a valuable tool in ensuring adequate control and monitoring of scheme development.

3.15 In my report last year I noted a review of the role of Scheme Audit by the Department's Business Improvement Unit who recommended that Scheme Audit's remit should be extended to provide a quality assurance function. The Department told me last year the new Regulatory and Inspection Unit would commence operations with effect from 1st April 2004. I consider the establishment of such a unit essential if the control and monitoring of Housing Association Grants is to improve to an acceptable level. I intend to review the operation of the unit and will report in 2004-05.

NIAO examination of scheme payments

3.16 My staff selected a sample of 13 schemes for examination from a total of 86 schemes on which the final tranche payment was made during 2003-04. This involved 13 Housing Associations and the sample details are set out in Figure 3 below. It should be noted that all the schemes sampled had reached practical completion prior to Housing Associations having had the opportunity to implement my recommendations from previous audits.

Figure 3: Schemes examined by NIAO

Housing Association	Scheme Location	Approval Date	Total Grant Paid by Department £'000	Grant Paid in 2003-04 £'000
BIH	South Belfast	April 01	1,931	386
Choice	Newtownards	June 03	209	209
Clanmill	West Belfast	August 01	430	86
Connswater	East Belfast	August 01	2,353	448
Flax	North Belfast	March 01	2,609	522
Fold	Carrickfergus	October 01	1,317	263
Gosford	Newry	June 01	296	59
Grove	North Belfast	April 03	112	112
Hearth	Templepatrick	October 01	120	24
North & West	Londonderry	February 01	2,086	834
Oaklee	North Belfast	February 02	1,472	294
St Matthews	East Belfast	July 03	159	159
Triangle	Cookstown	October 03	216	216

3.17 The following main areas arose from my audit of the schemes above:

- inadequate control and monitoring by Housing Associations; and
- insufficient Departmental control and monitoring.

Examples of my findings are included in paragraphs 3.18 to 3.29 below.

Inadequate control and monitoring by Housing Associations

3.18 Housing Associations are given a certain degree of autonomy by the Department in respect of the application of Housing Association Grant awarded. This is achieved through the self certification process described in paragraph 3.7 and the application of the Housing Association Guide which is produced by the Department. During my audit of the schemes, my staff noted the following weaknesses.

Inaccurate and inapplicable certifications made by Housing Associations

3.19 As noted above when making their application the Housing Association must certify that it has undertaken a number of specific actions and ensured certain essential requirements have been put in place.

3.20 From the examination of the sample of schemes my staff identified a number of instances where Housing Associations had failed to either inform the Department where individual certifications had not yet actually been met or delete certifications which were inapplicable to particular schemes. Examples of certifications which had not been met at the time of payment claim nor notified to the Department are:

- outline or full planning permission had not been obtained at project approval application stage, in one case planning permission was not sought until some time after project approval application was made;
- in one instance an Association failed to ensure that the solicitor had confirmed the property had good title;
- in three instances economic appraisals had either not been completed or not completed at the right time, in some cases performed retrospectively;
- in one case the valuation of property had been carried out retrospectively, that is, after purchase price was agreed and project approval given;
- building contracts had not been signed before application for start on site tranche was made by Associations and contractors taking possession of site. In one scheme the building contract was not signed until 18 months after scheme completion;
- application was made for acquisition tranche grant outside the specified two week purchase completion period in one case examined; and
- Buildings Regulations Approval, on one occasion, not obtained until six months after practical completion.

Non adherence by Housing Associations to Departmental procedures

3.21 Housing Associations are required to follow procedures and best practice contained in the Housing Association Guide issued by the Department. The Guide sets out the requirements which Housing Associations must follow in relation to Health & Safety regulations, procedure, design and procurement. My staff identified instances where by not adhering closely to the requirements, Housing Associations may have exposed their funds to the risk of claims by third parties.

3.22 In particular, instances were highlighted where I am concerned that Housing Associations did not follow Departmental guidelines in relation to the tendering and award of contracts. For example, my staff noted that:

- the award of contracts and services was in one instance based only on an Association's knowledge and past experience of the contractors;
- in one case, there was no written agreement detailing the duties and responsibilities of the Housing Association and it's development agent, and the proposed relationship with consultants and contractors; and
- in three cases the number of tenders invited were not within the recommended number as stated in the Housing Association Guide.

3.23 Other areas of non-adherence to guidelines by Housing Associations I examined related to:

- the completion of economic appraisals. Not all Associations followed the basic steps for completion of economic appraisals outlined in the Housing Association Guide;
- non-compliance with energy efficiency guidance. Under the Design Advice Scheme, Associations must provide an independent energy efficiency report on all new build schemes and rehabilitation in excess of 500 square metres. Two instances of non-compliance were noted; and
- in one case examined a building survey was not undertaken.

3.24 I indicated in my report last year (HC 1202) that the Department was reviewing the Housing Association Guide and that it was on target to complete the review and to have an on-line version of the guide available by mid 2004. I can now report that Parts 1 and 2 of the Guide have been updated and are available on-line with parts 3 and 4 currently being updated for on-line publication before the end of 2004. The guide is clearly a key control and monitoring mechanism and I intend to review the implementation of the revised version during the 2004-05 audit.

Insufficient evidence to support key decisions taken by Housing Associations

3.25 The examination of scheme files also highlighted various instances where there was little evidence to support the rationale behind key decisions taken by Housing Associations. Examples are:

- where appointed consultant architects and/or quantity surveyors were responsible for evaluating applications for inclusion on select lists, evaluating tenders and recommending contractors for selection, Housing Associations did not always ensure that sufficient evidence was made available to them to support the decisions and recommendations made;
- in one case, there was conflicting information reported in the economic appraisal and the survey;
- in another case, estimated costs for scheme construction on the project application form were not supported; and
- while all the Associations visited during the audit retained minutes of their management committee meetings, the level of detail varied significantly. In a number of instances there was a lack of evidence to support key decisions taken, such as scheme approval decisions.

Insufficient Control and Monitoring of Schemes by Housing Associations

3.26 In many instances, Housing Associations devolve the process of contractor selection and the control and monitoring of schemes to their appointed consultants. Specific examples of where my staff found insufficient control and monitoring of schemes by Housing Associations examined are:

- issues relating to project approval were not documented as being addressed at practical completion stage in one of the cases my staff examined; and
- in another case planning permission was sought only after the application for project approval.

3.27 I asked the Department about the progress it had made to address the issues highlighted above. The Department told me that as well as completing and issuing Parts 1 and 2 of the Housing Association Guide referred to in paragraph 3.24 above, it is making good progress with the remaining parts. It has also amended a number of certification forms and continues to operate the evidence based certification process it introduced in February 2003, which requires Housing Associations to provide some supporting documentation with their certifications. In addition the Department has introduced enhanced internal checking and monitoring and a system whereby matters outstanding from any stage of the process are highlighted and followed up.

Insufficient Departmental Control and Monitoring

3.28 The audit highlighted some weaknesses in relation to the Department's control and monitoring of grant paid to Housing Associations. For example, one Association claimed acquisition tranche with the knowledge that purchase completion would not take place within the two weeks as specified by Housing Association Guide. The Department paid out the above tranche despite the Housing Association having advised them of the circumstances.

3.29 As indicated in paragraph 3.15, I consider that the establishment of the New Regulatory and Inspection Unit is a key element to an adequate system of Departmental control and monitoring of Housing Associations. Furthermore, I encourage the Department to expedite the completion of the Housing Association Guide (referred to in paragraph 3.24) so that up to date guidance, incorporating essential control and monitoring mechanisms, is available for use by Housing Associations.

Review of Internal Audit

3.30 Internal Audit carried forward five audits from 2002-03, of which two were finalised (Travel & Subsistence and Housing Finance) in 2003-04. Two deferred audits from 2002-03 (Follow up review of Housing Associations Branch and an audit of the Northern Ireland Co-Ownership Housing Association) were also completed.

3.31 I conducted a review of the Internal Audit reports completed and note that, while a limited amount of work was carried out, Internal Audit considered that an overall rating of substantial assurance was appropriate. I also note that Internal Audit considered that actions taken by Housing Association Branch to date has cleared the majority of the previous Internal Audit recommendations. However, I am concerned that the audit of NI Co-Ownership Housing Association (NICHA) identified weaknesses in the monitoring and control of scheme management resulting in limited assurance being awarded. Further comments on NICHA are included in paragraphs 3.32 to 3.34 below.

Review of Northern Ireland Co-Ownership Housing Association

3.32 The Northern Ireland Co-Ownership Housing Association (NICHA) was established in 1978 to contribute towards meeting housing need through the promotion and development of the concept of equity sharing (shared ownership) in the private housing sector. It achieves this through the Co-Ownership Scheme. This provides access to home ownership for those who would otherwise enter or remain in rented accommodation, including some existing owner occupiers when their circumstances change for the worse.

3.33 Purchasers take as large a share as they can afford to start with, that is, 50 per cent, 62.5 per cent or 75 per cent, and can increase their share at any time. The larger their share the lower the rent they pay to NICHA. Properties can be sold at any time provided that the purchase price is acceptable to NICHA's valuer.

3.34 In my report last year, the Department indicated that it was updating procedural guidance for NICHA and that as a consequence of the Department's concerns at the levels of funding allocated to the Co-Ownership scheme it had commissioned specific research aimed at demonstrating the benefits of the scheme. The Department has now told me that the procedural guidance for NICHA has been updated and that reports commissioned by the Department to address its concerns have also been completed and are currently with the Department of Finance and Personnel for consideration.

Whilst I acknowledge that the Department have been proactive in enhancing control and monitoring within Northern Ireland Co-Ownership Housing Association I am concerned with the Internal Audit findings noted in paragraph 3.31. However, I note that the Department told me, in response to similar concerns in last year's report, that it anticipated NICHA would come under the remit of the proposed Regulatory and Inspection Unit (paragraph 3.15) which was to commence operations from 1st April 2004. I intend to keep the control and monitoring issues within NICHA under review and further report in 2004-05 if necessary.

Review of Constructionline

3.35 Constructionline is a Public Private Partnership between Government and Capita Business Service. With effect from 1st November 2002, the single register replaced all existing pre-qualification arrangements for the selection and appointment of consultants and contractors. This includes Housing Association schemes where the Department for Social Development is providing the majority or part of the capital funding. I reported last year that the Department anticipated that the register would reduce the financial and administrative burden on Housing Associations and that advice had been issued to Associations on the implementation of this new policy. The Department have told me that since its implementation in November 2002, Constructionline has been used successfully for 191 schemes submitted during the two year period.

3.36 As noted in paragraph 3.16 my staff examined schemes where development had been completed and final grant payments made during 2003-04. It follows, therefore, that due to implementation timescales, Constructionline had not been applied on any of the schemes examined and I have not yet been able to form an opinion on its effectiveness. However, during visits to Housing Associations, my staff found that although Constructionline was still bedding into the processes, most Associations recognised the benefits in the long term. I intend to review the application and effectiveness of Constructionline as part of my audit of the 2004-05 account.

Summary of Audit Findings

3.37 My audit findings in paragraph 3.11 to 3.36 indicate that a number of weaknesses in financial control and monitoring at both Departmental and Housing Association levels remained during 2003-04. These weaknesses related to schemes which had reached practical completion prior to the opportunity for Housing Associations to implement NIAO recommendations from previous audits. However, it is encouraging to note that Housing Associations have indicated that they have been proactive in implementing improved controls and procedures in line with Departmental and audit recommendations. Therefore, I would expect to see further improvement in scheme management during 2004-05 when I anticipate newer schemes to have incorporated my previous recommendations.

3.38 As noted in paragraphs 3.15 and 3.29 above, I consider the setting up of the new Regulatory and Inspection Unit as essential if the Department's control and monitoring of Housing Associations is to improve to an acceptable level.

3.39 As indicated in paragraph 3.34, I intend to keep the control and monitoring issues within NICHA under review, and report if necessary.

3.40 As I have also indicated in paragraph 3.36, I propose to further review the application and effectiveness of Constructionline by Housing Associations during my 2004-05 audit.

Conclusion

3.41 On the basis of my specific findings in paragraphs 3.11 to 3.36, I have to conclude that the Department's financial controls and monitoring of grants to Housing Associations continues to be insufficient. I am encouraged to see the Department has been proactive in ensuring previous audit recommendations and good practice is being promoted in Housing Associations, but I have concerns over the adequacy of the Housing Associations' financial control and monitoring of expenditure on individual schemes. In the absence of proper controls I have decided to qualify my audit opinion.

Part 4: Schedule 2 - Qualified Audit Opinion Arising from Weaknesses in Financial Control and Monitoring of Expenditure in Relation to Urban Development and Community Development Grants to Voluntary and Community Bodies

Request For Resource C : Urban Regeneration and Community Development

Introduction

4.1 One of the Departments key strategic objectives is "to tackle disadvantage amongst individuals, communities and neighbourhoods, with particular emphasis on greatest need and encouraging, developing and supporting community development". During 2003-04 the Department paid out £67.8 million (2002-03:£45.4 million), in respect of expenditure on Urban Regeneration and Community Development grant.

This part of the report details:

- Background to urban regeneration and community development (paragraphs 4.2 to 4.5);
- NIAO Audit Approach, Findings and other issues (paragraphs 4.6 to 4.30); and
- Summary and Conclusions (paragraphs 4.31 to 4.33).

Background

4.2 The Departmental Resource Account (Request for Resource C) includes expenditure by the Department for Social Development on urban regeneration and community development. This covers physical and social regeneration by way of Urban Development grant in Belfast and Londonderry, expenditure on Comprehensive Development and Environmental Improvement Schemes, grants under the Community Regeneration Improvement Special Programme in urban areas outside Belfast and grant in aid to Laganside Corporation. In addition it covers the implementation of the Making Belfast Work and Londonderry Regeneration Initiatives, the payment of grants to voluntary and community organisations and has responsibility for the facilitation of payments from certain European Funds and Programmes. Much of the expenditure is administered through third parties such as: Intermediary Funding Bodies; community groups; voluntary organisations; and statutory bodies.

4.3 The Urban Regeneration and Community Development Group (URCDG) within the Department is charged with the management of this expenditure and has been organised into the following sections:

Belfast Regeneration Office (BRO) - consists of a Physical Development Branch, four Area Teams and a Central Administration Unit. BRO administers two European Union Grant Programmes, Comprehensive Development Scheme Grants, Urban Development Grants and grants to voluntary and community groups located in the most deprived areas of Belfast;

North West Development Office (NWDO) - consists of a Physical Development Unit, Local Neighbourhood Renewal Unit, Regional Strategies Unit and a Business Support Unit. Programmes and schemes administered by the Directorate include Peace II, Measure 2.11; the Urban Development Grant Scheme and the Local Community Fund. NWDO is also responsible for monitoring the implementation of the Regional Development Strategy in the North West;

Regional Development Office (RDO) - is responsible for urban regeneration in towns and villages outside Belfast and Londonderry and developing lands in former New Towns. The Directorate consists of three regional offices, Land Services which manages the sale and running of the New Town lands and a Headquarter unit. RDO administers a number of programmes including CRISP (Community Regeneration & Improvement Special Programme) and CERS (Community Economic Regeneration Scheme) projects which are funded jointly with the International Fund for Ireland (IFI);

Voluntary and Community Unit (VCU) - consists of five policy teams dealing with key aspects of the voluntary and community sector throughout Northern Ireland. These include infrastructure development, capacity building, volunteering, community development, charity regulation, sustainability and neighbourhood renewal;

European Union Unit (EUU) - co-ordinates and reports on the department's activities in relation to the four EU funding streams namely Peace II; Building Sustainable Prosperity; Urban II and Interreg IIIA. In addition to providing advice and guidance on procedures and actions the Unit has a monitoring and verification role under the EC Regulations. The Unit is also responsible for the operational closure of the Programmes when completed; and

Belfast City Centre Regeneration Directorate (BCCRD) - which works with a range of public and private sector groups in order to regenerate and promote Belfast City Centre as the regional centre for shopping, leisure and business in Northern Ireland. Examples of schemes undertaken by BCCRD include the Victoria Square Project and Laganside. In addition the Directorate carries out promotional and public realm work to promote and enhance Belfast City Centre.

4.4 Expenditure during the year by the Department on urban regeneration and community development across the group was:

	2003-04		2002-03	
	£m	£m	£m	£m
Central administration		7.7		6.6
Urban Regeneration Programmes:				
BRO	6.2		13.6	
RDO	4.2		4.3	
NWDO	2.4		1.3	
BCCRD*	15.4		-	
Laganside Corporation	6.2		6.7	
		34.4		25.9
Grants to community and voluntary bodies		10.2		7.8
Grants under the EU Peace and Reconciliation Programme to voluntary bodies, community groups and statutory bodies, including Gap Funding between EU programmes		8.9		3.6
Grants under the European Regional Development Fund to district councils, community groups, statutory bodies and the private sector		1.7		0.6
Grants under the European Social Fund to community groups and Executive Programme Funds		3.7		0.5
Community Initiatives		1.2		0.4
Total		**£67.8**		**£45.4**

* BCCRD received £12.8 million income in respect of the Victoria Square development.

4.5 I have qualified my audit opinion in this area since 1999-00 on the basis of significant weaknesses in the Department's financial controls and monitoring of expenditure in this area.

NIAO Audit Approach

4.6 On the basis of the serious weaknesses in financial controls and monitoring identified in previous years, I again decided to focus my 2003-04 audit on those areas which I considered to be of greater risk to public funds. These are:

- Urban Regeneration grants made by Belfast Regeneration Office, North West Development Office and the Regional Development Office;
- grants under the EU Special Support Programme for Peace and Reconciliation; and
- grants to voluntary bodies and community groups made by the Department.

4.7 The approach to the audit was:

- a review of the work undertaken by the Department's Internal Audit Unit across URCDG in 2003-04 and an assessment of the impact of Internal Audit's findings;
- a review of the work of Belfast Regeneration Office's Quality Assurance and Improvement Unit (QAIU) and it's Review Panel, including testing a sample of projects subject to their review;
- a review of the work of North West Development Office Quality Assurance and Improvement Unit (QAIU); and
- specific testing of the operation and adequacy of key financial controls by examining a sample of projects funded by the Department during the year.

The findings of my audit are set out in paragraphs 4.8 to 4.23 below.

Audit Findings

Review of Internal Audit Work

4.8 The first stage in the investigation process was a review of the work undertaken in 2003-04 on behalf of URCDG by the Department's Internal Audit Unit. The programme of work conducted by Internal Audit included the audit of 32 projects examined across the various business areas. Due to the extent of work carried out by Internal Audit, I decided to take assurance from their detailed testing. In addition to this I examined a sample of projects which is further described in paragraphs 4.20 to 4.21.

4.9 The 32 projects tested were split on an interim/final sampling basis. The interim sample covered 22 payments from April to September 2003. Figure 4, summarises Internal Audit's main audit findings and attributes them to individual projects. Internal Audit noted that "of the 22 projects examined, only 3 did not contain material error" and expressed concern that their "findings revealed the same issues arising as reported in previous examinations, both by themselves and NIAO". They concluded that "there is no discernible improvement in the quality of the work". Internal Audit noted that "the interim sample was primarily in respect of projects processed prior to the introduction of revised procedures being introduced". To determine if the revised procedures had any impact on the quality of the work, they agreed that their final sample would cover applications received between 1st October 2003 to 31st March 2004.

4.10 The final sample consisted of 10 projects, split evenly between BRO and NWDO, as these were the only areas which fell into this category. At the time of their testing all of these files had progressed to the Letter of Offer[1] stage **i.e. no payments had been made**. The test-

1. "Letter of Offer"is the contract between the Department and the grant recipient.

ing found that 8 out of the 10 cases examined contained errors (3 NWDO and 5 BRO). In respect of NWDO, Internal Audit said:

"although errors were detected in 3 of the 5 project files examined, Internal Audit consider that these errors are not as significant in comparison to the findings from the interim testing cases. The testing also indicated that whilst the NWDO QAIU process raised comments on the files examined, these were more along the lines of clarification rather than fundamental errors in the project. From this evidence Internal Audit is satisfied that management have reduced, both in terms of quantity and significance, the level of error within the project work and this therefore represents a marked improvement in the quality of the assessment and approval of projects within NWDO.

On a cautionary note, it should be remembered that this was a small sample of project files, and that all the projects were only at Letter of Offer stage. Testing during 04-05 would determine if these improvements have been consolidated".

From the findings on BRO's final testing, Internal Audit said:

"the work of QAIU (in identifying errors/non-compliance prior to the approval of a project) has led to a noticeable improvement in the quality of the files submitted to the Review Panel.

However the high level of error/non-compliance identified by QAIU also indicated that the quality of the frontline work remains poor, and this must be a continuing concern to management. Our testing also revealed that there were a number of issues which were not raised by the QAIU, however, Internal Audit is satisfied that the QAIU is making acceptable progress given the time needed to fully develop its expertise".

4.11 Despite the "signs of improvements in standards of more recent applications" Internal Audit consider that an overall assurance rating of "No Assurance[2] " for the Department's URCDG projects (and Internal Audit's Annual Report for URCDG as a whole) in 2003-04 remains appropriate. The various weaknesses in key financial controls and monitoring of expenditure identified by Internal Audit throughout URCDG once again correspond closely to the findings of my audit (paragraphs 4.12 to 4.23). Where appropriate, the issues raised by Internal Audit have been highlighted in the Statement on Internal Control provided by the Accounting Officer in the Resource Account.

2. No Assurance is defined by Internal Audit as "control is generally weak, leaving the system open to significant error or abuse".

Figure 4: Summary of Main Internal Audit Findings

	1	2	3	4	5	6	7	8
NWDO - Interim								
Maiden City Festival Committee	X		X					
Out & About	X		X					
The Old Library Trust	X	X	X		X	X	X	
Shipquay Street (EI Scheme)	X					X		
95 - 97 Spencer Road	X							
NWDO - Final			Tests not applicable*					
City Centre Initiative	X							
Bogside & Brandywell Womens Group	X							
Women into Irish History	X							
Clooney Hall Centre								
Waterside Area Partnership								
RDO								
Banbridge EI Scheme (Phase 2)	X					X	X	
Roslea	X				X	X		
Garvagh EI Scheme	X				X	X	X	
Kinawley CRISP								
Lonsdale Road CD Scheme								
VCU								
West Belfast Economic Forum	X		X					
Greater East Belfast Partnership Board	X	X						
North Down Community Network	X							X
Bogside & Brandywell Initiative	X	X					X	X
Lurgan Council for Voluntary Action	X							X
BRO								
Glasvey Environmental Imp Scheme	X				X			
St Oliver Plunkett Pre School	X	X						
Saints Youth Club	X							
Star Neighbourhood Centre	X							
Tullycarnett Community Forum	X		X			X		
Artability NI Ltd			X					
Springfield Charitable Assoc								
BRO - Final			Tests not applicable*					
Inner East Youth Project	X	X						
Ballymurphy Womens Centre	X							
Upper Andersonstown Comm Forum	X							
Shalom House	X	X						
Gr Village Regeneration Trust	X	X						

Key

1 Insufficient evidence/investigation to support funding decisions

2 Insufficient liaison with other funders to establish level of alternative funding available/staging of payments

3 Inadequate letters of offer/non-compliance with terms and conditions of letters of offer

4 Failure to issue revised letters of offer as a result of fundamental changes to projects

5 Insufficient evidence to support payments

6 Inadequate financial control/monitoring of expenditure

7 Irregular payments (i.e. payments made outside governing authorities / no economic appraisal completed)

8 No action taken to confirm that monies issued to these projects under Interim Funding are eligible under the current EU Measure

* Projects only tested up to Letter of Offer stage and no payments were made, therefore these tests were not applicable

Review of the work of Belfast Regeneration Office's

Quality Assurance & Improvement Unit and its Review Panel

4.12 The Belfast Regeneration Office's Quality Assurance and Improvement Unit (QAIU) was set up with an aim to provide management with independent assurance on the accuracy of the payments made and, where necessary, to make recommendations to improve quality by addressing any significant concerns identified. Assurance was obtained by performing payment checks on a random sample on a monthly basis. The check was restricted to determining whether sufficient documentation was held on file to support the payment made, and that the payment complied with the current letter of offer.

4.13 However, as a result of both NIAO and Internal Audit’s findings, which identified the Area Team project assessment process as one of the main areas of risk, a Review Panel was also established within Belfast Regeneration Office in October 2002. Its aim is to provide management with independent assurance on the completeness of evidence held on the project file to support the recommendation to approve funding. It does not approve projects as the responsibility for this lies with the relevant Area Project Leader[3] . The Review Panel comprises of the Director of BRO, the Head of QAIU, the Head of Central Administration Unit, an Area Project Leader on rotation and a senior officer from the Group's Planning and Governance Unit.

4.14 QAIU also provides administrative and technical support to the Review Panel. It performs initial checks to ascertain whether area teams have adequately completed the project application process including the adopted Review Panel pre-approval checklist, before submitting the case to the Review Panel for consideration. Responsibility for ensuring the effective implementation of recommendations made by the Review Panel rests with the

3. Area Project Leader is the manager of each office.

Area Project Leaders. However, where issues raised are deemed to be significant, the Review Panel may recall a project for reconsideration. Initially the Panel considered all projects above £20,000 which had been recommended for approval (*pre-approval check*) and 20 per cent of projects below £20,000 which were approved during the previous month (*post-approval check*). However, given the high level of comments being raised by the Review Panel, the Director of Belfast Regeneration Office decided to lower the level for referring cases to the Panel from £20,000 to £15,000 with effect from 11th April 2003. As a consequence of continued Review Panel findings, and the findings of my previous audits, the Director decided that from 29th July 2003 **all** project files should be referred to the Review Panel for scrutiny prior to their approval.

4.15 As part of my audit work on the 2003-04 Resource Account, my staff examined a sample of four QAIU payment check cases and eight Review Panel cases from across the various Belfast Regeneration Office teams, with a view to ensuring the quality and findings of their work.

4.16 The QAIU cases were all examined on a "post-payment" basis i.e. after payment had been made. There was clear well documented evidence of the examination of each payment, including notification to the Area Project Leader of the findings. I noted that many of the issues raised were similar to my own findings. However, it was difficult to form an overall opinion on whether QAIU has met its aims, as the monthly payment checks were not performed for the latter half of the year (October to March 2004). The Department told me that during the period October to March 2004, no payment checks were carried out by QAIU due to staff shortages and staff changes. Furthermore the Department indicated it has introduced an enhanced payments checking regime from 1st April 2004. On the basis of my findings, I have concluded that the work of the QAIU was of a satisfactory standard. However I am concerned that the payment checking did not operate for the full 2003-04 year.

4.17 All the Review Panel cases I tested were considered prior to the project approval and the issue of a formal Letter of Offer. The Review Panel's examination and review was found to be thorough with well documented findings, and in many cases, resulting in additional work being carried out by the teams to provide sufficient evidence prior to cases being cleared for approval. I noted that many of the issues raised by the Review Panel were similar to my own findings. Taking into consideration the number of measures the Department told me had been introduced in response to my report last year, I was disappointed with the number and the repetitive nature of the issues being raised on the files presented by the teams. I have concluded that the work of the Review Panel was satisfactory, and that their work is a valuable addition in providing management with independent assurance on the quality of decision making. The Review Panel was originally set up as "a control" on a pilot basis, for a six month period, with the aim of streamlining and improving the effectiveness of the checking procedures throughout the Belfast Regeneration Office area teams, thus reducing the level and nature of the weaknesses noted. However it has been in place now for over two years and is operating as a "checking mechanism" with no limit on its life. The Department told me that, in evaluating the outcome of the pilot exercise, BRO management recognised the effectiveness of the Review Panel process, supported by the work of QAIU in ensuring the sufficiency of evidence in support of decisions to support funding. As a result it was decided to retain the Review Panel process as an effective management tool in addressing audit criticisms. While I recognise the role of the Review Panel and QAIU in introducing improvement, I am concerned about the continued failure by the Belfast Regeneration Office to achieve improved compliance first time.

Review of the work of North West Developments Office's Quality Assurance & Improvement Unit

4.18 In last year's report (HC 1202) I noted that a QAIU had been established in the North West Development Office. I stated that I intended to review their work as I was concerned at the level and nature of the weaknesses in financial control and monitoring of expenditure highlighted during the previous year's examination of North West Development Office projects.

4.19 This QAIU was established in October 2003 with the initial aims of addressing audit recommendations by providing guidance to staff and reviewing live files to secure audit compliance. During my review, I found clear evidence that in a relatively short period of time, these aims appear to have been achieved. There was also evidence of liaison with the Belfast Regeneration Office's QAIU and the sharing of information and best practice issues. However I have concerns about:

- the limited number of staff available in QAIU, which I believe restricts it's ability to review cases; and
- the fact that the Review Panel was not operational at the time of my testing to independently assess each case prior to it's approval.

The Department has told me that QAIU staffing in NWDO is currently being addressed and that NWDO Review Panel has become operational from the 21st September 2004.

At this early stage of its development, I do not propose to form a conclusion on the work of the North West Development Office QAIU. I do however intend to continue to review the operation of the new Unit during my audit of the 2004-05 account.

NIAO examination of project payments

4.20 The final stage of our investigation involved testing the operation and adequacy of key financial controls by examining a sample of projects funded within the risk areas identified in paragraph 4.6. My staff examined a total of nine projects selected randomly from payments made from April to September 2003 within the different areas under investigation. My testing of the nine projects revealed the same weaknesses as reported in my previous examinations. I therefore decided that the results of the nine projects and the detailed testing carried out by Internal Audit provided me with sufficient evidence on which to base my audit opinion. The detailed findings are set out in paragraphs 4.21 to 4.23 below.

Summary of Main Audit Findings

4.21 Of the nine projects examined by my staff, I have concerns in respect of five projects which are summarised in figure 5 below. Projects handled by Belfast Regeneration Office, the North West Development Office, and the European Union Unit are involved.

4.22 Figure 5 below summarises the main audit findings and attributes them to individual projects. While in a number of cases one administrative weakness has automatically resulted in another, there are other instances where the weakness is stand-alone, that is, not interdependent. In my view the findings again illustrate the significant weaknesses in the Department's financial control and monitoring of the payments it makes to the various bodies. While the Department has been committed to addressing the issues raised as a result of both this and my previous audits, I would continue to encourage the Department to strengthen key financial controls in all areas where weaknesses have been identified.

Figure 5: Summary Of Projects And Main NIAO Findings

	1	2	3	4	5	6	7	8
BRO								
Kilwee Parish Centre			X	X	X	X	X	X
NWDO								
Galliagh Community Festival Committee			X			X		
Roe Valley Community Property Ltd			X		X		X	
North West Play Resource Centre			X			X		
EU Unit								
Lower North Belfast Community Council					X	X		

The four projects where no errors were found were handled by BRO, RDO,VCU and EU Unit.

Key

1 Insufficient evidence/investigation to support funding decisions

2 Insufficient liaison with other funders to establish level of alternative funding available/staging of payments

3 Inadequate letters of offer/non-compliance with terms and conditions of letters of offer

4 Failure to issue revised letters of offer as a result of fundamental changes to projects

5 Insufficient evidence to support payments

6 Inadequate financial control/monitoring of expenditure

7 Irregular payments i.e. payments made outside governing authorities

8 Risk of conflict of interest

4.23 Examples of specific weaknesses in financial control and monitoring across of URCDG expenditure highlighted by my audit are set out below:

Inadequate letters of offer/non-compliance with terms and conditions of letters of offer

- letters of offer not specific regarding the timing of the project;
- letters of offer did not specify the expected timing for the receipt of project evaluation reports; and
- on one occasion the Department failed to ensure the revised letter of offer was accepted and a signed copy returned before making payments.

Failure to issue revised letters of offer as a result of fundamental changes to projects

- in one instance the Department failed to issue a revised letter of offer resulting in no formal contract between the Department and the group.

Insufficient evidence to support payments

- the Department did not receive documentation to support grant claims as required by the terms of the letter of offer; and
- on occasions the Department failed to obtain sufficient evidence to ensure there was no overlap of funding with other funders.

Inadequate financial control/monitoring

- failure of the Department to ensure the timing of receipts complied with the conditions of the letter of offer;
- failure by the Department to ensure the timely receipt of annual accounts;
- failure by the Department to ensure project progress and final evaluation reports outlining the outputs achieved against targets were received in accordance with letters of offer before paying final grant instalments; and
- one instance was noted where the Department had failed to identify amounts paid in excess of the maximum due.

Irregular payments, that is, payments made outside governing authorities

- payment of grant by the Department in advance of a commitment having been entered into by a grant recipient; and
- payment of grant by the Department in advance of pre-conditions of the letter of offer having been met by the group.

Risk of conflict of interest

- failure by the Department to ensure conflicts of interest do not exist. My testing revealed one case where building renovation work was awarded to a contractor with the majority shareholding in that property. While there appeared to be no financial irregularity, the Department did not take the necessary steps to protect itself from the perception that a conflict existed and the possibility of litigation from other contractors.

4.24 In my report last year on the 2002-03 DSD Resource Account (HC 1202) I noted that the Department had told me it had almost completed a Business Improvement Review of the Belfast Regeneration Office. The Department has now advised me that this review has been subsumed into a wider BRO Change Management Strategy whose purpose is to conduct a fundamental review of how BRO operates and clearly articulate how the organisation needs to change in order to deliver the Neighbourhood Renewal Strategy successfully in Belfast. The final report is due to be completed by the end of February 2005.

4.25 Also in my report on the 2002-03 DSD Resource Account I continued to monitor progress on the internal review within URCDG of how payment systems and verification procedures should, in future, be structured to ensure greater effectiveness and robustness in control is achieved. The Department has told me that this review has now progressed and that the EU Verification Unit will be extending its remit to include independent verification of all programmes from January 2005. Research into best practice in other grant funding organisations, development of new streamlined processes for the group's key activities and consultation with IT to ensure that the new grant administration system has adequate IT support has also taken place. A generic procedural manual is due to be produced in April 2005 with training taking place immediately after issue. A central Advice & Guidance Unit which will provide support to all Business Areas including procedural guidance and training issues is due to be established in April 2005 and the development of the operating systems for this unit is currently underway.

4.26 In my last two years' reports I have noted that the Department is engaged in an evaluation of a pilot computerised database of funding to the voluntary and community sector in Northern Ireland. The Department told me that the NI Funders Database is now operational across all Government Departments and the NIO and is being populated by all business areas. A cross departmental user forum has been established to ensure ongoing development and monitoring of the system. It is anticipated that the public website will be operational by 1st April 2005. HM Treasury has expressed a keen interest in the system.

Easing the burden on grant administration

4.27 Although my audit findings noted "insufficient evidence to support payment", I am very aware, as a result of representations from the voluntary and community sector, that they regard the volume and nature of requests from sponsor bodies as very considerable and in some cases an unreasonable burden. I am concerned that the volume and type of information the Department is gathering may not be properly aligned with the requirements to authorise payments. I recommend that the Department makes greater use of risk assessment in its vouching procedures and improves the training of staff to assist them with the identification of essential and non-essential information.

Holywell Trust

4.28 I first noted my concerns regarding the adequacy of financial controls and monitoring of the European Regional Development Fund grant paid by Voluntary and Community Unit to Holywell Trust in my 2001-02 report.

4.29 The Department carried out an investigation in relation to the Community Organising and Capacity Building Programme run by the Trust. Their investigation highlighted a number of key control lessons which should be applied to applications of this nature. In last year's report I noted my intention to assess their detailed response to the conclusions and recommendations, and to follow up the Departments identification of the amount of overpayment, and their pursuit of recovery as recommended in the report.

4.30 The Department responded to the recommendations and a final report of the investigation was issued in January 2004. I was disappointed to note firstly, the time it had taken to respond to the report, and secondly, the quality, and in some cases the briefness of the responses. It did however identify a number of improvements made by Voluntary and Community Unit, and I intend to test these improvements during my audit work in due course. The Department told me that the Voluntary and Community Unit is currently considering further advice received from the Departmental Solicitors Office on the 27th September 2004 regarding potential recovery action which may be appropriate. In my view it is imperative that the Department takes immediate and appropriate action to draw this matter to a satisfactory conclusion.

Summary of Audit Findings

4.31 The results of my audit testing and that of the Department's Internal Audit clearly indicate the continued serious weaknesses in the controls and monitoring of expenditure in this area by the Department. Despite a number of initiatives within the URCDG, the level of weakness remains unacceptable. I have reported on weaknesses in this area for a number of years now and I strongly recommend that the Department responds urgently to the issues raised in this report and in reports issued by Internal Audit. I will continue to monitor progress during the year and report in my 2004-05 report. The Department has responded to the criticisms through the following actions:

- A number of enhanced control measures were introduced in 2002-03 as outlined in the Resource Account for that year. Internal Audit reviewed these and noted in their final audit review for 2003-04 that, "these changes have not been in effect for a sufficient period of time to have a major impact on the assurance rating for 2003-04." The Department also noted that the changes will, however, have been in place for the whole of 2004-05 and, as a consequence, should have a significant impact.

4.32 In addition, a number of new initiatives, as detailed below, have both been and are being put in place:

- A major project commenced in August 2004 to develop and establish 'Common Systems' for assessing and processing grant applications across URCDG. This will provide a uniform approach for business practices thereby improving compliance, enabling staff to move between disciplines, reinforcing segregation of duties and enhancing the sharing of best practice;

- As detailed in the 2002-03 Resource Account report, a major re-organisation of RDO's structure came into effect on 1st April 2004. New processes and controls to strengthen management checks on programme expenditure and reduce the risk of error have been introduced and guidance and training has been delivered to staff on new procedures for making payments and monitoring and evaluating projects;
- A risk management approach to verification and monitoring of grants is being implemented by VCU. The risk assessment will be based on the amount of grant awarded, the type/standing of the provider, the financial systems and controls in place and the management of the project. The revised practice will reduce the amount of original documentation required by the Department and will ultimately lead to reduction in the level of verification and monitoring undertaken. Information seminars have been held for grant applicants and staff;
- The level of checking of procedures by the Quality Assurance and Improvement Unit in BRO has been enhanced in relation to project assessment/appraisal, project payments and project monitoring/ evaluation. Procedures are regularly reviewed and updated;
- A quality checklist has been developed to enable the Group to monitor payment accuracy and achievement on a uniform basis. This will be effective from November 2004;
- URCDG remains committed to training and developing its staff in all disciplines. An example of this is the establishment of a bespoke training scheme in relation to Grant Administration developed in conjunction with CIPFA;
- The computerised database of funding to the voluntary and community sector in Northern Ireland, as declared in the 2002-03 Resource Account report, became operational in April 2004 and is led by VCU across Government. This will be an essential tool in helping to avoid duplicate funding;
- A Business Support Units forum has been established to share best practice across the Group;
- A "Good Practice in Governance and Finance" guidance manual which has been developed in a joint exercise between the Department and representatives from the voluntary and community sector will be published in December 2004;
- New case appraisal notes and standard proformas are being developed to ensure that all appropriate justification is provided to support all funding decisions;
- A common set of delegation limits to approve cases is being developed to ensure greater consistency and clarity across the Group;
- The Quality Assurance Units and Review Panels will continue to be key elements of Management Control. The development of the quality checklist, as described above, will further enhance the effectiveness of both bodies; and
- From September 2004 URCDG has full representation from the Finance and Governance Section on the Group Management Board. This will help to maintain the Boards focus on key Financial and Governance issues.

Conclusion

4.33 On the basis of my audit findings in paragraphs 4.8 to 4.23, I have to conclude that the Department's financial controls and monitoring of expenditure in this area remain inadequate. As a result I am unable to determine whether the expenditure made was applied to the purposes intended and was regular. I have therefore decided to qualify my audit opinion accordingly.

Part 2

Executive Agency and Non-Departmental Public Body Accounts

Northern Ireland Child Support Agency Client Funds Account 2003-04

Executive Summary

Introduction

1. The Northern Ireland Child Support Agency is an Executive Agency of the Department for Social Development (prior to devolution the Department of Health and Social Services).

2. The Agency's Client Funds Account shows that £12.7 million was received from non-resident parents during 2003-04, £8.5 million was paid to persons with care and £4 million was paid to the Department for Social Development, where persons with care are in receipt of income support. The balance of £0.2 million comprised refunds of overpayments to non-resident parents. At 31 March 2004, the total value of maintenance balances outstanding from non-resident parents, and considered collectable, totalled £9 million.

3. I am required under section 11(3) of the Government Resources and Accounts Act (Northern Ireland) 2001 to examine and certify the Northern Ireland Child Support Agency Client Funds Account. This report brings to Parliament's attention significant matters arising from my examination of the Account for 2003-04.

Audit Examination of the Client Funds Account for the year 2003-04

4. I have qualified my audit opinion on the Agency's Client Funds Account for 2003-04 because, following my examination of a representative sample of cases, 6 per cent of receipts from non-resident parents, 37 per cent of full maintenance debt balances and 24 per cent of interim maintenance debt balances were for the wrong amount. This is mainly as a result of errors in the underlying maintenance assessments and incorrect adjustments to customers' accounts.

5. Based on the 2003-04 results, I estimate that overpayments by non-resident parents amounted to £73,400 while underpayments amounted to £163,900. I also estimate that at 31 March 2004 recoverable debt relating to full maintenance assessments contained overstatements of £793,500 and understatements of £3,359,300, and debts relating to interim maintenance assessments contained overstatements of £700 and understatements of £14,700.

Child Support Reforms

6. Under the Reforms the implementation of simplified rules relating to maintenance assessments, the modernisation of operational processes and the introduction of a new computer system were expected to result in more accurate and timely maintenance assessments and improved compliance with maintenance obligations.

7. The original planned date for the introduction of the Reforms was October 2001. However, this was delayed because testing of the new computer system had not been com-

pleted satisfactorily and the Agency did not have the necessary level of assurance that it would operate effectively. The Agency began processing claims under the new rules on 3 March 2003.

8. The processing of new cases under new rules was to be followed by the transfer of existing cases to the new system and the subsequent conversion of these from the old scheme of assessments to the new. However continuing problems with the new computer system's stability and functionality has delayed this, and the bulk of the Agency's caseload (approximately 77 per cent as at 31 March 2004) remains based on old scheme rules. The impact of this is that the reduced error rates and improved service delivery expected from the Reforms have not yet materialised.

Part 1 : Background to the Agency

Introduction

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

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

1.2 Prior to the introduction of the Child Support Reforms, which became effective from the 3rd of March 2003, child maintenance was calculated on the basis of formulae laid down in legislation. This report refers to calculations under the legislation as 'old scheme' and maintenance assessments calculated under the Child Support Reforms as 'new scheme'. The majority of transactions in the CSA Client Funds Account for 2003-04 are based on the old scheme as the new scheme is being phased in and is only used for new cases. The old scheme calculations are inherently complex as it is necessary to obtain personal details of both non-resident parent and the person with whom the child mainly resides (the 'person with care'). This involves gathering information on income, housing costs and other expenses from customers who may be reluctant to provide it. Consequently there is significant risk of error occurring in the assessment process. The aim of the new scheme is to substantially simplify the calculation of maintenance assessments. I include comments on the introduction of the Child Support Reforms in the final section of this report.

Part 2 : Examination of the Client Funds Account

Introduction

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

The Northern Ireland Child Support Agency's Client Funds Account

2.2 The Northern Ireland Child Support Agency's Client Funds Account is prepared on a cash basis and shows the amounts received by the Agency from non-resident parents, the maintenance subsequently paid over to persons with care and the sums paid to the Department for Social Development, where persons with care are in receipt of income support. The Agency maintains accounting records on its Child Support Computer System and also now on the Child Support 2 (CS2) system for individual non-resident parents. The maintenance outstanding at 31 March 2004 disclosed at notes 6.1 and 7.1 to the Client Funds Account is derived from the balances on these individual accounts.

2.3 The Client Funds Account shows that during 2003-04 the Agency received £12.7 million (2002-03 £12.5 million) from non-resident parents. Based on this amount £8.5 million (2002-03 £8.3 million) was paid over to persons with care and £4 million (2002-03 £3.9 million) to the Department for Social Development, where persons with care are in receipt of income support. Further payments of £0.2 million (2002-03 £0.4 million) comprised refunds of overpayments to non-resident parents.

2.4 At 31 March 2004, the balance of full maintenance assessments outstanding totalled £7.9 million (£9.3 million at 31 March 2003) while the balance of interim maintenance assessments outstanding totalled £1.1 million (£1.1 million at 31 March 2003). The balances disclosed in notes 6.1 and 7.1 in relation to full and interim maintenance amounts outstanding exclude balances that the Agency regards as probably uncollectable. The probably uncollectable amounts are written down in year and relate to amounts which are likely to be very difficult to collect due, for example, to the lack of recent payments from the non-resident parent or the personal circumstances of the non-resident parent. However, the amounts outstanding on individual cases still remain due in full and the Agency continues to consider any new facts brought to its attention regarding collectability. It has not waived its discretion to take action in the future to collect any amount outstanding which becomes collectable. My staff tested a sample of cases from the debt analysis exercise to ensure that the Agency had properly classified the total debt as at 31 March 2004.

2.5 Notes 6.1(iv) and 7.1(iv) to the Account show that this accounting policy has resulted in full maintenance assessment balances shown in note 6.1 being reduced by £20 million and interim maintenance assessment balances shown in note 7.1 being reduced by £15.4 million at 31 March 2004.

Audit Results

Basis of Testing

2.6 I have examined representative samples of receipts from non-resident parents and maintenance debt balances. The results of these examinations allow me to confirm the existence of material error within the account but are subject to margins of statistical uncertainty. In 2003-04 my staff examined 50 receipts, 30 full maintenance case units involving some 141 assessments (2002-03; 96 assessments) and 30 interim maintenance case units involving 36 assessments (2002-03; 35 assessments).

Receipts and Payments

2.7 From the representative sample of receipts from non-resident parents in 2003-04, I found that in 94 per cent of cases examined the receipt was correct. In 6 per cent of cases the receipts were for the wrong amount, because of errors in the underlying maintenance assessments.

2.8 The Agency's independent Case Monitoring Team reported that the accuracy of the cash value of decisions made in 2003-04 was 92 per cent against a target of 82 per cent. The Agency's method of calculating cash value accuracy was changed from 2001-02 so that only the accuracy of the last decision on an assessment is measured, rather than looking back over decision making throughout the life of the claim. My audit, on the other hand, examines the cash value of client funds received each year and subsequently paid out by the Agency, together with the amount of maintenance outstanding at the year end. This involves examining each assessment decision over the life of the claim. Due to this difference in approach and reporting methodology the Case Monitoring Team's results are not directly comparable to my results in respect of receipts. Nevertheless, in my view, both sets of results show unacceptable levels of inaccuracy.

2.9 The regular reports produced by the Case Monitoring Team are examined by the Standards Committee. The Standards Committee is chaired by an independent chairperson and reports annually to the Agency's Chief Executive. A copy of the report is also laid in the Northern Ireland Assembly. My staff met with the Standards Committee Chairman during 2003-04 to discuss our respective review and reporting methodologies and to discuss the findings of my audit and the results of the Case Monitoring Team's work during the year. This proved to be mutually beneficial.

2.10 The sampling techniques used in the audit have enabled me to extrapolate the results to provide an estimate of the level of monetary error in the receipts and payments account. I estimate that overpayments by non-resident parents amounted to £73,400 (0.6 per cent of total receipts), while underpayments totalled £163,900 (1.3 per cent of total receipts). On this basis the total estimated over and underpayments are a material sum and I have therefore qualified my opinion.

Maintenance Balances

2.11 I examined a representative sample of balances due from non-resident parents in 2003-04. This required verification of all transactions supporting each balance and a re-performance of the assessments, charges, transactions and adjustments made throughout the lifetime of the case. This examination identified errors in 37 per cent of full maintenance balances and 24 per cent of interim maintenance balances. However, as interim maintenance assessments are set at punitive rates which do not take into account the non-resident parent's ability to pay, approximately 93 per cent have been written down in the Account as probably uncollectable.

2.12 Extrapolation of the audit results indicates that the £7.9 million shown in note 6.1 to the Account as due at 31 March 2004 from non-resident parents for full maintenance assessments is likely to include overstatement errors amounting to an estimated £793,500 (10 per cent of the amount outstanding) with understatement errors amounting to an estimated £3,359,300 (43 per cent of the amount outstanding).

2.13 Similarly, I estimate that the £1.1 million shown in note 7.1 as due at 31 March 2004 for interim maintenance assessments is likely to include overstatement errors amounting to an estimated £700 (0.06 per cent of the amount outstanding) with understatement errors amounting to an estimated £14,700 (1.4 per cent of the amount outstanding).

2.14 I found that misstatements in full and interim maintenance balances were frequently attributable to combinations of errors made in 2003-04 and earlier years. Some errors will have had a single impact on the amounts due or adjustments made, but most will have had recurrent effects on regular maintenance due and sums received. Figure 1 analyses the errors found from the full maintenance assessments examined during the audit into time bands.

Figure 1 : Analysis of Errors found from 2003-04 examination of Full Maintenance Assessments

Period of Assessment	Number of Assessments Examined	Number of Errors	% of Errors per Number Examined
Pre 1 April 1997	59	6	10%
1 April 1997 - 31 March 1998	8	1	12%
1 April 1998 - 31 March 1999	12	3	25%
1 April 1999 - 31 March 2000	19	3	16%
1 April 2000 - 31 March 2001	16	5	31%
1 April 2001 - 31 March 2002	16	5	31%
1 April 2002 - 31 March 2003	5	1	20%
1 April 2003 - 31 March 2004	6	2	33%
Total	**141**	**26**	**18%**

The above analysis is based on a sample extraction of maintenance assessments. The 18 per cent error rate in 2003-04 compares to a 50 per cent error rate in 2002-03.

Source: Northern Ireland Audit Office audit examination

2.15 Since many of the errors in balances at 31 March 2004 arose from errors made in earlier years, the balances brought forward at 1 April 2003 also contained material amounts of error. These erroneous balances and the continuing impact of errors in charges and adjustments, along with a high level of additional errors made in 2003-04 resulted in the total level of misstatements in full and interim balances at 31 March 2004. The number of errors made (18 per cent compared to 50 per cent in 2002-03) indicates an improvement from 2002-03 but the level of errors found is, in my view, still a cause for concern.

2.16 In the light of these results, I have concluded that the amounts reported in notes 6.1 and 7.1 as being due from non-resident parents at 1 April 2003 and 31 March 2004 are materially misstated. Since these notes do not properly present the maintenance balances due I have qualified my audit opinion.

Causes of Error

2.17 The majority of errors in receipts from non-resident parents in 2003-04 referred to in the above paragraphs were caused by mistakes in the underlying maintenance assessments. Most maintenance assessment errors arose from mistakes by the Agency's staff in calculating the income element of assessments, applying the incorrect effective date and applying incorrect housing costs (figure 2). Errors in receipts will also have an effect on the accuracy of outstanding balances. A major contributor to poor performance has been insufficient evidence recorded by decision makers to substantiate their decisions.

Figure 2: Analysis of the Causes of Error in receipts and maintenance balances in 2003-04

	Number of errors			
Causes of Error	**Receipts**	**FMAs**	**IMAs**	**TOTAL**
Incorrect earnings applied	1	6	-	7
Incorrect benefits rates applied	-	1	1	2
Incorrect effective date applied	-	6	1	7
Incorrect adjustments to Child Support Computer System	-	3	2	5
Incorrect housing costs applied	4	4	2	10
Incorrect number of assessment units	-	2	1	3
Other	2	4	-	6
Total	**7**	**26**	**7**	**40**

Source : Northern Ireland Audit Office audit examination

2.18 In response to my audit findings the Agency has said that it has placed a particular focus on improving the standard of decision making accuracy in recent years, with this being reflected in the Agency's achievement of Ministerial Accuracy Targets for the past three successive years. In addition, current analysis of maintenance assessments revealed an error rate of 18 per cent in 2003-04, compared with 50 per cent in 2002-03, with legacy errors continuing to impact on current decision making standards. Further to the action taken last year, the Agency advised me that during the past year it focused on the delivery of training, providing additional support to trainees through consolidation and providing desk aids to all decision makers to address the top five causes of error. This theme of continuous improvement is being carried forward to 2004-05 as part of the Agency's five key business challenges designed to improve business performance.

Conclusion

2.19 The levels of error in receipts, payments and maintenance balances continue to be unacceptable. In the past few years the Agency has indicated that the combined introduction of the Child Support Reforms, with less complex calculation regulations and the new computer system (Child Support 2 or CS2) would improve performance. Unfortunately the impact of the simpler method of calculation, operational for the whole of 2003-04, has yet to have any significant impact on the level of error as only new cases are affected and the legacy of error in the old cases continues to dominate reported levels of error. I include comments on the implementation of CS2 in the final part of this report.

Part 3: The Child Support Reforms

Aims of the Reforms

3.1. The Government set out its plans for the Child Support Reforms in a White Paper published in July 1999[1]. It recognised that the system had failed to deliver regular maintenance and had become discredited, and concluded that the complex rules did not fit with the lives of separated families or with other systems of support. The Reforms, as subsequently set out in the Child Support, Pensions and Social Security Act 2000, were intended to address the:

- difficulty in making and understanding the maintenance calculation;
- lack of effective enforcement action to encourage non-compliant parents;
- lack of engagement with parents to work together effectively; and
- length of time it took to move from application to assessment to a flow of maintenance.

Implementing the Reforms

3.2. A major constituent of the implementation of the Reforms was the development of a new computer system (known as CS2). Electronic Data Systems Limited (EDS) were contracted to design, develop, test and implement the new system.

1 ‘A New Contract for Welfare:Children’s Rights and Parents’ Responsibilities’, July 1999

3.3. The original date for the introduction of the Reforms was October 2001. As a result of a review commissioned by the Agency this was deferred to April 2002. However, this was in turn delayed because testing of the new computer and telephony system, which was considered fundamental to the successful implementation of the reforms, had not been completed satisfactorily. As a result the Agency did not have the necessary level of assurance that it would operate effectively. EDS were subsequently able to provide that level of assurance and the Agency began processing applications under the new rules on 3 March 2003.

3.4. The processing of new cases under new rules was to be followed by the transfer of existing cases to the new system and their subsequent conversion from the old scheme of assessments to the new at a date to be determined by government. However, during 2003-2004 the Agency experienced a range of difficulties with the new computer and telephony system and associated new methods of working have yet to be fully implemented.

3.5. EDS are planning to release a series of enhancements to the system to make it as robust as had been expected at go-live date in March 2003, and to enable the transfer of old cases onto the new system.

Implications for service delivery

3.6. At 31st March 2004 the Agency estimates that 8,260 cases were on the new system and therefore were being processed under new scheme rules. However the bulk of the Agency's caseload, some 26,950 cases (approximately 77 per cent of total caseload), still remains on the old system and therefore remains based on old scheme rules. The impact of this is that the reduced error rates and improved service delivery expected from the Reforms have not yet materialised.

Looking forward

3.7. A key management challenge for the Agency, once a fully functional computer system has been developed and implemented, is the successful application of the new rules to the existing caseload. This involves firstly the transfer of data from the old computer system to the new system and the subsequent conversion of old scheme assessments to assessments under the new scheme.

3.8. The Agency had intended that the transfer should take place in one go during 2002. However, problems with the computer system meant that the bulk transfer has been delayed. In November 2003 the Agency undertook an exercise to examine the likely success of transferring cases in bulk. The results of this exercise were considered by the Agency to be generally favourable, although a number of areas for development were identified. These included the reconciliation of financial data from one system to the other and the subsequent allocation of work to caseworkers. Solutions are now being developed. EDS expects that the system should be sufficiently stable for the transfer and conversion of old cases to begin at a date yet to be established.

Conclusion

3.9. It is disappointing to report that the Agency has not progressed the implementation of the Child Support Reforms to the expected level. The problems with the computer system need to be resolved urgently and I will continue to review the implementation of the Reforms in 2004-05 and report further in due course.

Invest Northern Ireland - Qualification of 2003-2004 Financial Statements

Introduction

1. I qualified my opinion on Invest Northern Ireland's 2002-03 accounts as insufficient evidence was available to me on the recording, monitoring and use of funds by third party organisations (TPOs). Invest Northern Ireland (Invest NI) had inherited contracts with TPOs from the Local Enterprise Development Unit (LEDU) which were not supported by an adequate system of controls. My opinion on the 2003-04 accounts continues to be qualified in respect of this matter.

2. TPOs are private sector or voluntary bodies which Invest NI contracts to deliver initiatives by means of financial assistance, advice or other services to customers who otherwise would have received such assistance directly from Invest NI. TPOs include, for instance, local enterprise agencies delivering the business growth programmes, Enterprise NI managing the Start a Business Programme (previously known as "Northern Ireland Business Start Programme") and other entities managing loan or venture capital funds. Invest NI paid some £4 million to TPOs in 2003-04 (£6 million 2002-03). Many of these TPOs also receive funds from other sources such as the International Fund for Ireland and District Councils.

Review Of Contracts With Third Party Organisations

3. In 2002 Invest NI commissioned consultants to conduct a review of the TPO contractual relationships inherited from LEDU. The main findings were that:

- contracts were not clear as to the services required and the expected outputs were often omitted;
- a number of contracts were let without any tendering process; and
- there were no formal monitoring systems to provide Invest NI with assurance that TPOs were complying with the terms and conditions of the contracts.

In response to these findings, Invest NI introduced revised procedures over new contracts in 2003-04. New guidance has since been issued and an Audit and Control function set up to manage the budget to TPOs.

4. These formal monitoring arrangements do not yet include the structured inspection programme of TPO books and records which I recommended in my report on the 2002-03 accounts. Therefore insufficient evidence is available to me to confirm that public funds issued to bodies have been used for the purpose intended by Parliament.

5. I asked Invest NI why the structured inspection had not yet been completed. Invest NI advised me that a formal ongoing inspection programme is now in place. The length of time taken to commission this inspection programme reflects the amount of work undertaken by Invest NI to capture and analyse all the relevant data in respect of its TPO relationships. Following a review by Invest NI of the extent of its contractual relationships ire-

spect of 247 separate initiatives, some 49 were confirmed as TPOs. A further risk assessment exercise identified 28 organisations (accounting for 85 per cent of the TPO expenditure over the past 3 years) which warranted inspection. Of these 28 inspections, 22 are now substantially complete and it is anticipated that the remaining 6 will be completed in the next 2 months.

6. I will review the outcome of these inspections during my audit of the 2004-05 accounts.

Loan And Venture Capital Funds

7. The Chief Executive refers in the Statement of Internal Control to action taken to investigate specific governance, contractual and monitoring weaknesses in particular contracts. In addition to a general review of TPO contracts inherited from LEDU, Invest NI, in January 2003, commissioned an investigation into the establishment and management of Emerging Business Trust (EBT Loan Fund) and EBT Venture Fund Limited (EBT Venture Fund). The Trust was established in 1996 with funds of public money on behalf of LEDU and the International Fund for Ireland. The Trust assists in the financing of emerging businesses from disadvantaged areas in Northern Ireland.

8. In my report on the 2002-03 accounts (issued in July 2004) I noted that the Invest NI investigation was still in progress and significant governance and regularity issues including LEDU's handling of potential conflicts of interest were still being explored.

9. I received a final report from Invest NI into the establishment and management of EBT on 4th April 2005. I asked Invest NI why the investigation which was commissioned almost two and a half years ago has taken so long to complete. Invest NI advised me this investigation has covered a wide range of issues some of which are very technical going back many years.

10. Both EBT Loan Fund and EBT Venture Fund have ceased to trade and both companies went into creditors voluntary liquidation on 11th April 2005. Invest NI is now taking all necessary steps to maximise the recovery of funding previously provided.

11. I am preparing a separate report on the matters arising out of Invest NI's own investigation into the EBT Loan Fund and the EBT Venture Fund.

Invest Northern Ireland - Land Acquisition Costs Associated With the Expansion Of Granville Industrial Estate

Introduction

1. This report deals with the purchase of 50 acres of land, at a total cost of £2,323,143, to enable the expansion of Invest Northern Ireland's (Invest NI's) Granville Industrial Estate in Dungannon. In particular, the report examines the contribution of £673,143 by Invest NI towards the cost of six acres of land, purchased by the Department for Regional Development's (DRD's) Roads Service, to facilitate access to Invest NI's expanded industrial estate by improving the A4/A45 Granville Road junction.

2. The report also examines issues relating to the former Industrial Development Board's (IDB's) proposed expansion of Granville Industrial Estate, in particular deficiencies in its economic appraisal of the project, its failure to adhere to contractual and payment procedures in relation to land acquisition, deficiencies in its record keeping and the lack of progress on development at Granville to date.

Lands Acquisition Costs

3. Roads Service is the only public body in Northern Ireland which has the authority to acquire land, compulsorily or by agreement, to carry out road works. The amount of compensation payable to landowners in such acquisitions is determined by the Valuation and Lands Agency (VLA), an agency of the Department of Finance and Personnel (DFP). Where the road works form part of Road Service's work programme, the compensation amount determined by VLA is normally based on the normal market value of the land, for example the development (commercial, industrial, residential) or agricultural value.

4. Where road works are not on Road Service's work programme, but are necessary in the interests of road safety and traffic management as a result of the development of land by a third party developer (in this case IDB/Invest NI), DRD told me that it is well established planning policy that the developer is required to fund the road improvements. This is regulated through DOE Planning Service's Area Plan and Development Control process, and applies equally to public and private sector development. One of the consequences of this process is that where the developer has to acquire additional land to facilitate the road improvements, this land is often regarded as "key" land, ie land which the developer must have to enable the development to proceed, with the potential for a significantly higher price.

5. On its formation on 1 April 2002, Invest NI inherited responsibility for the acquisition and development of land for industrial purposes from IDB. In 1998 IDB had decided to extend its serviced land availability at the existing Granville Industrial Estate in Dungannon through the purchase of 44 acres, comprising two sites, of adjacent industrial zoned land at Cormullagh (the Cormullagh lands).

6. IDB's evaluation of the proposed development was undertaken in parallel with the preparation of the Draft Dungannon Area Plan 2010, prepared by the Department of the Environment's (DOE's) Planning Service. The Area Plan contained a Roads Service stipulation that any development of the Cormullagh lands would require a new slip road at the A4/A45 Granville Road junction, some 0.5 miles away from the Granville site, to provide a safe and convenient access from the development onto the A4 trunk road. This would necessitate the purchase of six acres of land, comprising three sites (the junction lands), adjacent to the existing road junction. The junction lands had been valued at £20,000 by VLA for agricultural purposes. However, the linkage between development at Cormullagh and the junction upgrade in the Area Plan meant that the junction lands would be regarded as key land, with the potential for a significantly higher cost of acquisition.

7. On 6 February 2001, Roads Service copied to IDB an extract from its November 1998 report on "A4 Dungannon-Ballygawley Options" which examined the adequacy of the A4/A45 Granville Road junction. The report stated that while traffic volumes at the road junction would exceed recommended levels for this type of junction in around two years time, the situation was relieved by the existing road layout. The report concluded that the junction should, therefore, be retained but that traffic volumes should be monitored with a view to upgrading the junction if the need arose.

8. Roads Service subsequently wrote to IDB, on 19 February 2001, confirming that it had statutory authority to acquire the junction lands to complete the road junction improvement works required to facilitate development at Cormullagh. However, Roads Service stated that while it had identified the A4/A45 junction upgrade as a "desirable" scheme that may be required in the future, in view of the low accident record and the number of other higher priority schemes, it did not form part of the Roads Service work programme at that time. Roads Service would, however, consider advancing the proposed scheme onto its work programme provided that IDB agreed to contribute towards construction costs. In addition, IDB would have to pay any additional costs of acquiring the junction lands arising from the key land issue.

9. In March 2002 IDB paid £1,630,000 for the 44 acres of land at Cormullagh (see paragraphs 15 to 17 below). Following protracted negotiations between Invest NI, VLA, DRD and the junction landowners, in August 2002 Roads Service instructed VLA to enter into negotiations with the landowners to agree a price for the junction lands. In January 2004 Roads Service paid the landowners £693,143 for the junction lands, of which Invest NI contributed £673,143 in respect of the additional key land costs arising, with Roads Service capping its contribution at £20,000 based on the agricultural value of the land estimated by VLA.

10. It is DRD's understanding that the key land issue arose in this case because of the linkage between development at Cormullagh and the Granville Road junction upgrade in the Draft Dungannon Area Plan 2010. This resulted in the junction lands attracting significantly higher acquisition costs which, in this instance, were borne by Invest NI. The junction lands, given an estimated agricultural value of £3,333 per acre by VLA, ultimately attracted a price of £115,524 per acre as against the cost of the Cormullagh lands, which were industrial zoned, of £37,045 per acre.

11. DRD informed me that many public and private sector projects including schools, industrial development, offices and hospitals attract significant volumes of additional traffic. These require road improvement works to be carried out, and that these improvements relate to road safety and traffic management factors deemed necessary in the public inter-

est. However, the Department told me that it is Roads Service policy not to acquire land for road schemes which are not on its work programme unless there is a statutory requirement to do so.

Deficiencies in Economic Appraisal

12. IDB's economic appraisal of the proposed land acquisition and development at Granville was submitted to DFP for approval on 1 March 2001, and approved by DFP on 6 March 2001. However, despite the fact that IDB had been aware of the potential for greatly increased acquisition costs in relation to the junction lands, no mention of this, nor an estimate of the potential costs, were included in the economic appraisal. In addition, although the project costs noted in the appraisal included IDB's contribution towards the road improvement construction costs, this was not separately disclosed in the cost breakdown but was included under "Site Development" costs. The economic appraisal did not, therefore, make any direct reference to the key land issue or the requirement to carry out the road improvements, an essential element of the overall project.

13. The cost of acquiring the junction lands did eventually exceed their nominal value by £673,143, an increase of some 16 per cent over and above the estimated total project cost submitted to and approved by DFP. This was not brought to DFP's attention by Invest NI.

Failure to Follow Administrative Procedures and Deficiencies in Record Keeping

Initial Negotiations

14. Although it is not possible to be precise about the timing due to an inadequate paper trail, in late 2000 / early 2001 IDB proposed that the principal Cormullagh landowner, acting as an agent for IDB, would acquire the junction lands from the three landowners involved and transfer them into public ownership at the same time as the transfer of the Cormullagh lands. This had been in an attempt to minimise the potential key land costs, estimated by VLA at between £180,000 and £500,000. However the agent reported that the best price he could negotiate for the junction lands was £345,000, and the proposal was not taken forward.

Revived Negotiations

15. On 18 June 2001 VLA wrote to IDB stating that they were unable to recommend that the purchase of the Cormullagh lands proceed. This was due to the remaining uncertainty surrounding the key land issue and the unknown but potentially significant costs in relation to the junction lands. Following further negotiations with the agent, in December 2001 VLA negotiated a deal whereby IDB would purchase both the Cormullagh and junction lands for the sum of £1,825,000. However, as set out below this package negotiated by VLA was subsequently disaggregated in to separate elements by IDB without VLA's knowledge. Under this arrangement the agent would acquire the junction lands at a much lower price of £150,000 and £1,630,000 would be payable to the Cormullagh landowners for the Cormullagh lands. A total of £195,000 was payable to the agent in respect of the junction lands, ie £50,000 for each of the three sites plus £45,000 to the agent.

The Contracts

16. The Departmental Solicitors Office (DSO) of the Department of Finance and Personnel subsequently drew up three contracts between IDB and the Cormullagh landowners, one each in respect of the two sites at Cormullagh, and one in respect of the junction lands. DSO had built conditionality into the contract for the junction lands so that should one of the junction landowners fail to meet their obligations the purchase of the junction lands by IDB would fall through. However the solicitors were not notified of the VLA advise to purchase all the lands as one package. On the basis of IDBs disaggregated approach no conditionality had been incorporated between the contracts for the purchase of the Cormullagh and junction lands. This resulted in three independent contracts. Failure to incorporate conditionality would result in IDB being locked into the contracts in respect of Cormullagh should the junction lands contract fall through. The three contracts were signed by a senior manager in IDB on 5 March 2002 and forwarded to the Cormullagh landowners for countersigning on 7 March 2002.

The Payments

17. On 25 March 2002, just prior to the financial year end, a middle manager in IDB authorised the relevant payments, totalling £1,825,000, to the respective solicitors acting for the Cormullagh landowners. This was despite being advised by DSO and IDB legal staff that making the payments would be a risky course of action as important information remained outstanding, most significantly:

- the contract relating to one of the Cormullagh sites had not been signed and returned to DSO by the Cormullagh landowners; and
- although two of the three contracts had been executed, formal transfer of ownership documents relating to the contracts had not yet been received by DSO.

The payments were, therefore, in direct breach of IDB's contractual and payment procedures for land acquisition which required that payment should only be made once DSO had advised that transfer documents had been signed by the vendors. Furthermore, the middle manager instructed that the payment of £1,825,000 be made without seeking higher approval from a senior member of staff. This was explained in terms of his direct line manager being on holiday and the next manager in line having recently retired. The full amount was transferred to solicitors acting for the Cormullagh landowners later that day.

Collapse of the Deal

18. Following the Easter break Invest NI, which had come into operation on 1 April 2002, was informed that one of the junction landowners had refused to sell his site with the result that the contract for the purchase of the junction lands had fallen through. Consequently, Invest NI had to seek a refund of the £195,000 paid. As the contracts for the purchase of the Cormullagh and junction lands had not been conditional on one another, Invest NI had a legal obligation to proceed with the purchase of the Cormullagh lands under the remaining two contracts. Invest NI now faced the potential for having to pay significantly higher prices for the junction lands to facilitate development at Cormullagh, the very position which the deal had been designed to avoid and a situation which VLA had stated it was not prepared to recommend. As noted at paragraph 9 above, in January 2004 Invest NI paid a total of £673,143 towards the cost of acquiring the junction lands, with Roads Service paying the remaining balance of £20,000.

Could the land have been vested?

19. I asked DRD whether the junction lands could have been vested. The Department confirmed that there is no impediment to vesting in this type of case and said that VLA staff when conducting negotiations on behalf of Roads Service are aware of when Roads Service can utilise its vesting powers and deploys this information as appropriate in negotiations. DRD also explained that had the land been vested the level of compensation if not agreed with VLA would have been settled on appeal to the Lands Tribunal and on consideration of all the pertinent facts the key land issues would again have come to the fore.

20. DRD said that the use of vesting powers would not necessarily produce a more favourable/lower level of compensation for government bodies. The Department emphasised that the primary purpose in the use of vesting powers is to secure clear title to the land, the process of determining the proper value of the land is separate from the method of acquisition.

21. In October 2001 Roads Service wrote to IDB stating that its preference was that the land should be acquired by agreement but that it was willing to use vesting powers if necessary on the understanding that Roads Service would not be required to contribute towards any land costs related to key land. At that stage IDB was of the view that vesting was not required as the land could be procured at a reasonable price (£195,000 see paragraph 15). However insufficient consideration appears to have been given by IDB to asking Roads to apply the vesting option once it became clear that there was no possibility of securing a deal on these terms.

22. VLA told me that the land was eventually acquired with vesting powers in the background and that there was no guarantee that use of vesting would have produced lower acquisition costs. In VLAs view at least one of the junction land owners would have formally objected to the vesting order and the consequent delay would have been unacceptable to IDB.

23. I do not find the above arguments entirely convincing. Vesting of land is intended to allow the purchase of land for the wider public good at the appropriate and fair market value. In my view more emphasis was given to the IDB requirement to complete the deal before the end of the financial year (paragraph 26) than to value for money considerations.

24. I am surprised that the vesting option was not re-visited in the latter stages of negotiations. In my view the probability of IDB securing a better deal on the junction lands would have been enhanced had the potential for exercising vesting powers been deployed in negotiations.

Deficiencies in Records

25. During my examination of this project my staff also noted that there were serious deficiencies in the order and completeness of the former IDB's and Invest NI's records. The rationale underlying key decisions was not always fully documented, with significant periods of time for which my staff could find no papers on file. In particular, there was an absence of a paper trail on the negotiations and decision process leading up to IDB's offer to purchase the junction lands from the principal Cormullagh landowner, with a period of two months immediately preceding the issue of IDB's letter of offer to the agent for which no papers were available. In light of the circumstances surrounding the purchase of the Cormullagh lands described above, it was not clear whether the papers had not been filed in the first instance, or whether they might have been removed from the file at a later date.

Action taken by Invest NI

26. Invest NI told me that the member of staff involved in negotiating the arrangement with the Cormullagh landowners, and making the payments in breach of IDB contractual and payment procedures, was interviewed in relation to his actions. The investigating officer concluded that the irregular processes involved in the land acquisition were the direct result of an error of judgement by the middle manager and a desire to make the payments before the financial year end, that he had not been engaged in any fraudulent activity with the property developer concerned and that low level disciplinary action was appropriate in this case. The middle manager was subsequently issued a formal reprimand.

27. I asked Invest NI what detailed investigations it had carried out to satisfy itself that there was no possibility of fraudulent activity in this case. Invest NI informed me that whilst it is agreed that there was a serious breach of control the action taken to investigate the transaction did not result in any suspicion of either fraud or collusion. Both the individual and his line manager were interviewed at the time to determine the basis on which decisions were made, and to ascertain whether or not there were grounds for a more far reaching investigation. No such grounds emerged from the interviews. Had standard procedures been applied this would have ensured this irregularity could not have arisen. However to provide additional assurance a review of similar transactions completed around the same time as Granville and involving the individual who was subsequently disciplined is to be undertaken. I have asked Invest NI to inform me of the outcome of this work.

Lack of Development of Cormullagh and Junction Lands

28. Invest NI and Roads Service have paid a total of £2,323,143 in respect of the acquisition of the Cormullagh and junction lands, purchased in March 2002 and January 2004 respectively. However, no development work has been undertaken by Invest NI at the Cormullagh site to date.

29. Invest NI told me that at the time of the acquisition of the land at Cormullagh there had been several expressions of interest in potential properties on the vacant land on the existing Granville site. However, the economic situation has changed significantly in the last few years and none of the interested parties progressed to implement their expansion plans. No other expressions of interest in land in the existing Invest NI estate have subsequently materialised, although Invest NI advise me that some interest has been shown recently.

Conclusions

30. In my view there is a need for a more joined up approach between public bodies in circumstances where public sector development projects require road improvements in the interests of road safety and traffic management. While I recognise that landowners need to be treated fairly it seems to me that there is significant potential for better value for money for the taxpayer in these types of land deals. I recommend that DFP take the lead in exploring with all the key players including DRD Roads Service, DOE Planning Service and its own Valuation and Lands Agency, what improvements might be made to the existing arrangements.

31. On projects involving a large number of advisors, it is essential that roles and responsibilities are clearly defined and an appropriate management framework put in place to facilitate communication and co-ordination of effort. In this case, which involved DRD Roads Service, DOE Planning Service, DSO and VLA, poor communication and co-ordination by IDB led to a wide misunderstanding of the nature of the deal and the failure to make the contracts for the purchase of the Cormullagh and junction lands conditional on one another.

32. Public bodies need to be alert to the risks involved in deals involving external agents acting on their behalf. In cases such as this, where the agent was selling his own land to IDB, but also negotiating the purchase of the junction lands on IDB's behalf, it is important to recognise that there is limited or no degree of independence on which IDB can rely.

33. The professional advisors in this case (VLA) were not kept informed of significant amendments to the structure of the deal. In complex cases such as this professional advice should always be sought and acted upon at critical stages of the process.

34. Invest NI must ensure that there is strict adherence to established contractual and payment procedures. In this case, payment of £1,825,000 was rushed through at the end of the financial year against legal advice, and before contractual obligations had been met, leaving IDB in a weak bargaining position in relation to its subsequent purchase of the junction lands. This was indicative of the failure of IDB to put in place arrangements for the proper control and supervision of staff at a time when senior officials had retired or were on leave.

35. Key decisions and judgements should always be fully documented. In this case the rationale for major decisions was not always clear, and there was no proper paper trail on the offer to purchase the junction lands from the agent.

36. I am surprised that the vesting option was not re-visited in the latter stages of negotiations. In my view the probability of IDB securing a better deal on the junction lands would have been enhanced had the potential for exercising vesting powers been deployed in negotiations.

37. I am concerned that the most fundamental risk factor associated with this deal, ie the uncertainty as to the price of the junction land, of which IDB was fully aware, was not included in the economic appraisal submitted to DFP for approval. It is also surprising that Invest NI failed to notify DFP of the substantial additional costs of £673,143 associated with the project once they had become known.

38. I also note that despite £2,323,143 of public funds having been expended in acquiring the Cormullagh and junction lands, no development has been carried out at either site to date.

Sports Council For Northern Ireland Accounts 2001-02 And 2002-03

Safe Sports Grounds Programme

1. The Sports Council has distributed some £9.5m (£3m in 2000-01 and £2.5m in 2001-02 and £4.0m in 2002-03) of grants to various governing bodies of sport, community organisations and clubs, on behalf of the Department of Culture, Arts and Leisure (the Department). The Sports Council's responsibilities include the administration of the Safe Sports Grounds Programme. This was launched in August 2000 to address urgent safety concerns highlighted in the report 'Safety at Sports Grounds in Northern Ireland'.

2. Funding for the programme included specifically allocated amounts of some £2.95m (£1.6m in 2000-01, £0.5m in 2001-02 and £0.85m in 2002-03) from the Department. The total value of grants awarded by the Sports Council under this programme amounted to £5.1m (£3.2m in 2000-01, £0.9m in 2001-02 and £1.0m in 2002-03) which consisted of 140 separate awards to 33 clubs. Payments totalling £4.1m had been made by March 2003 (£1.6m in 2000-01, £1.2m in 2001-02 and £1.3m in 2002-03).

NIAO Audit of 2000-01 Sports Council Accounts

3. In my report on the 2000-01 Sports Council Accounts I highlighted my concerns on two key issues relating to the Safe Sports Ground programme. Firstly the Sports Council processed interim payments to a number of projects in advance of need. The reason given in the letters sent to the recipient bodies was 'to ensure maximum spend within the financial year'. The Sports Council told me this funding was not eligible to be carried forward and consequently any unspent balance at the year-end was potentially lost to the Programme. I was also advised that there were paramount safety concerns which needed to be addressed (as per the review at Safety at Sports Grounds 1997 report issued by the Health and Safety Agency for Northern Ireland) and that delay could have jeopardised both the individual projects and the overall urgent safety objective of the Programme. I considered that the payments were irregular and in contravention of the rules contained in Government Accounting Northern Ireland.

4. Secondly I raised concerns in relation to the Sports Council's assessment of the financial viability of applicants. I noted that none of the applicants were refused on that basis and highlighted individual examples of clubs which had evidence of financial difficulties. The Sports Council indicated that financial viability was only one of four assessment criteria agreed with the sponsoring Department and whilst an applicant may have scored poorly on this criterion, the safety risk to spectators may have been such that the project nonetheless scored sufficiently highly to secure funding.

Letter of Concern to the Sports Council about Attempted Fraud

5. In my previous report I noted that Safe Sports Ground grant was awarded at a specific percentage rate of estimated allowable expenditure. Capital grants were awarded at a

specific percentage of estimated expenditure, up to a maximum of 85 per cent (some as low as 21 per cent). The terms and conditions of an award were set out in the letters of offer and required written acceptance by two signatories on behalf of the applicant. The contribution from clubs could therefore vary considerably but must as a minimum have been 15 per cent of the allowable expenditure on the project.

6. On 23 January 2001, a letter was received by the Sports Council. This letter enclosed a document which appeared to be written by an applicant who had received an offer of award from the Sports Council. The document (copy of a letter) stated:

> 'I believe there has been a serious misunderstanding about the 'Club Input' of 15 per cent. It is the understanding of all the clubs who received grant that this was to be simply a 'paper figure' ……………………….. The clubs however are building these sums into their costings in such a way that the full grant received will cover the work done.'

7. The Sports Council advised me that on receipt of the letter they took a series of measures:

- due to the concerns raised legal advice was sought, on 31 January 2001, regarding the details outlined in the document. The legal advice received from the solicitor stated that: '…….this letter on its own does not amount to fraud';
- on 1 February 2001, Sports Council officers met with officials from the Department to advise them of the letter and the legal advice obtained. At this meeting all those present agreed that fraud or attempted fraud had not taken place at this time. This decision was based on the fact that no payments had been made, no claims for payment submitted or paperwork received and legal advice stated that the letter in itself did not constitute fraud or suspected or attempted fraud; and
- in order to ensure that any misunderstandings by grant recipients were addressed, the Department and Sports Council officers agreed that the Sports Council would take the following actions: (per minute of the meeting)
- One-to-one meetings with all clubs in receipt of a Major Works award, including awards under the Safe Sports Ground programme;
- All clubs are issued with a letter identifying the need for the 15 per cent cash contribution and the required action should attempted fraud be identified;
- All clubs to sign a declaration (signed by their Chairman, Secretary and Principal Consultant) which confirmed understanding of the partnership contribution and the clubs' responsibility for robust accounting procedures;
- All permission to proceed letters to be released forthwith on condition that all necessary requirements are met; and
- No further funds are to be released until clubs have signed and returned their declarations.

8. I asked why the Sports Council believed that it could rely on such declarations. The Sports Council advised me that the signed declarations by the applicants in receipt of an offer eliminated the possibility of any misunderstanding. At this time it was the opinion of the Sports Council, the Department and the Sports Council's Solicitors that fraud or attempted fraud had not taken place, and this approach was agreed as the most appropriate course of action.

9. In my opinion:

- the practice of relying on a signed declaration was inadequate and unlikely to deter those determined to engage in fraudulent applications or claims for funding;
- the Sports Council did not adequately recognise or assess the high risk elements of this programme;
- subsequent to the receipt of the letter of concern the Sports Council did not put in place appropriate controls early enough to ensure that any attempted fraud would be detected and prevented; and
- the Sports Council did not ensure timely evidence was obtained that the clubs made their contribution towards the cost of the scheme.

10. The matters highlighted in the letter of concern should have alerted the Sports Council and the Department to the need for a timely and comprehensive review of the risks involved and to put in place appropriate controls and safeguards at the Sports Council to avoid any misappropriation of funds. This would have reduced the risk of fraud under the Safe Sports Ground programme prior to the Sports Council making payments under this scheme.

11. The Department is required to let the Department of Finance and Personnel (DFP) and the Northern Ireland Comptroller and Auditor General have details of all discovered fraud proven or suspected. I asked the Department why I had not been notified at this point and I was told that this issue was brought immediately to the attention of the Department and after discussion and taking account of legal advice obtained by the Sports Council at the time, it was the view of the Department that this did not warrant proceeding further with the fraud policy. The Sports Council and the Department therefore concentrated on taking steps to mitigate the possibility of any misunderstanding. Those steps were agreed at the meeting held on 1 February. When the detailed investigation (January 2003) indicated that there was clear evidence of suspected frauds the Sports Council and Department put their respective fraud policies into action and the Department notified DFP and NIAO forthwith.

12. Sports Council internal documentation dated January 2001 set out the background to the Sports Council fraud suspicions. It is my view that this documentation together with the letter of concern made it clear to the Sports Council and the Department that this was an attempt to manipulate the grant system to obtain funds to which there was no entitlement. In addition, where a department or NDPB finds it necessary to obtain legal advice on fraud this in itself should be disclosed. There was therefore a clear requirement to notify this matter to DFP and myself.

Investigation of Individual Safe Sports Ground Awards

13. In December 2002 (during the 2001-02 NIAO audit), my staff raised queries on a number of issues relating to the Safe Sports Grounds programme. In an effort to provide full responses and to further support the Sports Council's monitoring of grant expenditure, the Sports Council appointed consultants in January 2003 to undertake an independent investigation of the Safe Sports Ground's capital grants. The objectives of the investigation were to:

- provide evidence that the grant in aid paid to clubs by the Sports Council was used for the purposes for which it was given;
- provide evidence that the clubs made their respective contribution towards the cost of the scheme and that it was used for the purposes of the scheme; and
- review the financial controls that the Sports Council have in place for the programme and make recommendations for future programmes.

14. The consultants thus undertook an independent investigation of the capital payments under the Safe Sports Grounds programme of £3.2m in the first two years of the scheme. This represented 55 separate awards to 26 clubs. The findings of the investigation revealed a high incidence of irregularity in the Safe Sports Grounds programme and noted that the majority of these irregularities related to the Urgent Works awards the payments for which totalled £656,000 during the three year period.

15. The investigation proved satisfactory for 33 of the awards. Issues identified by the consultants in the other awards included:

- the Sports Council required grant recipients to tender their projects and to obtain Sports Council permission to proceed (PTP) using the selected contractor or supplier. Five grant recipients had made payments to contractors or suppliers not named in the PTP letters issued by the Sports Council;
- seven grant recipients submitted false invoices in support of claims, e.g. grant recipients submitted (false) invoices from the PTP contractors, but instead paid lesser amounts to other contractors, thereby increasing the proportion of the project funded by the Sports Council; and
- cash payments were claimed to have been made to contractors, either by the grant recipient or by persons on behalf of the grant recipient. It was not possible to verify these payments.

16. In addition to the above:

- the investigation activity appeared to result in three grant recipients making payments to their suppliers/contractors following commencement of their individual project investigations. This ensured that they met the terms of the Sports Council investigation; and
- the amounts recoverable from clubs were in some instances an estimate as there were queries outstanding and documentation still needed to support the validity of the amounts still retained by clubs.

17. The investigation specifically identified issues relating to 10 clubs. Of these 10 clubs, nine had received £137,123 (£49,957 in 2000-01 and £82,869 in 2001-02 £4,297 in 2002-03) more grant than they were entitled, because the actual payments they made to contractors or suppliers were less than the amounts included in grant claims submitted to the Sports Council. In an additional case, in respect of an award to the value of £130,000, investigation work could not be completed as information was not available. This was passed to the PSNI for further investigation.

18. Overall the findings of the investigation found that estimated overpayments from the Sports Council totalled £267,123 based on current information and the level of expenditure that could be verified by the club's financial records. £130,824 was paid to unapproved contractors (non PTP).

Action by the Sports Council following the Investigation

19. I asked what follow up work the Sports Council undertook subsequent to the investigation and was advised that as findings emerged from the investigation the Sports Council took immediate action. These actions included a requirement that all recipients agree to additional terms and conditions of award including:

- all receipts and payments relating to the project be accounted for through a dedicated bank account (restatement of an existing condition);
- all payments to contractors/suppliers to be made by cheque only;
- with the exception of professional and statutory fees, payments only to be made to contractors/suppliers named in the PTP letter(s) issued by the Sports Council;
- payments to contractors/suppliers to be made promptly and no later than two weeks after the receipt of the related grant monies;
- the grant recipient must present signed cheques to the Sports Council for mailing in respect of all payments relating to the project; and
- prior to payment of a claim, the grant recipient must submit bank statements showing that the invoices to previous claims were paid in full.

20. Furthermore, the Sports Council met with grant recipients to advise them of the concerns raised during the independent investigation and that any overclaimed grant should be paid immediately to the relevant contractors or returned to the Sports Council.

21. Where it was considered possible that grant recipients had supplied false information the Sports Council notified the PSNI, the Department and the Northern Ireland Audit Office. This was in accordance with the agreed Sports Council Fraud policy.

22. Seven grant awards were reported to the PSNI on suspicion of fraud following the outcome of the investigation. The Sports Council has had notification that prosecution will not be pursued in three cases. To date the Sports Council awaits the completion of the PSNI investigations relating to the remaining cases.

Recovery of Grant Overpayments

23. I asked the Sports Council what progress they had made in determining the final level of overpayments and recovering these amounts of grant to clubs. The Sports Council told me that as a result of the above Sports Council actions, eight grant recipients settled disputed amounts of £87,644, by either making:

- appropriate payments to contractors/suppliers; (£83,455) or
- refunding the Sports Council. (£4,189).

24. The Sports Council further advised me that of the 10 grant recipients with whom the investigators had concerns (see paragraph 17), eight have now fully resolved their financial position. Of the two remaining cases, one has not supplied sufficient information for the investigation to be completed and the other continues to dispute the findings. £179,479 grant funding remains outstanding on these cases.

25. The Sports Council has informed me that in both these cases, the facilities have been completed to a design and quality approved by the Sports Council and are presently being utilised. The Sports Council recognises that there are issues, which need to be resolved in relation to these grants. However the Sports Council has commissioned independent consultants to value the work undertaken by the clubs, in order to quantify if the work completed to date, is of a value equivalent to the costs against which the clubs were funded by the Sports Council. While final reports are not yet available, the Sports Council report that early indications are that the completed works at both clubs are at least to the value of the cost against which they were funded.

26. In the absence of the appropriate financial records it is not possible to determine the true cost of building work by the clubs, and in my view:

- the use of unapproved or unidentified contractors to complete building work is not a defensible basis for completion of government funded projects;
- the Sports Council should ensure that monies provided to clubs are spent in adherence with the terms of the Letter of Offer; and
- in these circumstances the payment of grant based on valuation certificates does not provide necessary financial information on the use of public funds.

27. Also, in view of the fact that the investigation by independent consultants found that false documentation was submitted in seven cases and four are being considered for prosecution, I asked the Sports Council how many of those responsible for false invoicing and documentation are still in a position of authority in clubs and whether it was satisfied that sufficient action has been taken to ensure that they will not be involved in vouching for or processing any future claims for public money. The Sports Council told me that the Council has included all clubs in question on a high-risk alert status within its Grants Management Information System. This means that any application for funding from these clubs will automatically be deemed high risk and will be assessed within the risk management framework and have appropriate monitoring attached. In addition the PSNI investigations are on-going and no fraudulent acts have been proven against any individual. Without proof of fraud the Sports Council believe it could be challenged if it attempted to force the removal of an individual from office in a recipient club or deny a club access to their programmes.

Sports Council Financial Controls over Safe Sports Grounds Awards

28. The Sports Council has a responsibility to have robust procedures in place to ensure that information provided by applicants for government grants is consistent and reliable based on an informed review of the documentation available to the Sports Council. A number of weaknesses in the Sports Council control procedures were identified by the independent investigation. The main areas were as follows:

- responsibility for review and assessment of documents submitted by claimants were not clearly set out in the procedures manual;
- in two cases the Sports Council did not undertake appropriate actions to link project monitoring to information provided on the tendering declaration form;
- original invoices were not always required as Sports Council placed reliance on architect's certificates. (This was established Sports Council practice at the time);

- there were some delays in final grant payments;
- whilst the Sports Council increased the frequency of site visits in relation to the programme, the monitoring of projects carried out by Sports Council could have been improved;
- in one case the Letter of Offer did not identify all elements of the project; and
- whilst a fraud procedures manual and staff training were in place there were instances were indicators of fraud were not identified.

29. The investigation concluded that:

'It is considered that the action taken by Sports Council in imposing additional conditions on awards is an appropriate response to the findings emerging from the investigation. The additional conditions unquestionably strengthen the control environment.' Also, 'The action already taken by Sports Council in imposing additional conditions of award will act to detect and even prevent the types of irregularities which the investigation has revealed.'

30. However, in my view the attempted fraud and widespread irregularities in the scheme could have been prevented by the application of what should be well established control procedures in the administration of grants. The procedures should have been proportionate to the inherent high risk nature of the programme.

Improvements in Sports Council Procedures

31. Public Bodies need to be alert to warning signs indicating potential fraud and act promptly on them. Where risks were identified in the financial element of the assessment I am concerned that the Sports Council did not more closely monitor the financial position and procedures of clubs during the project and when clubs applied for payment of these funds. I asked the Sports Council what further action they were taking to develop and implement procedures within the Sports Council and they advised me that:

- in addition to improvements already reported, the Sports Council had worked with the Department and independent accountants to undertake a Strategic Level Risk Assessment in relation to the design of the future programme; and
- that policies and procedures across all programmes are under constant review. Improvements will always take account of recommendations made during independent audits (internal and external), thus ensuring the systems are strengthened. The following areas have had recent enhancements:
- Policy - Revised Risk Assessment Policy;
- Procedural Improvements - Revised Procedures Manuals;
  New Computerised Grants Management System;
  Revised Project Management Procedures;
- Staffing Issues- Fraud Training Updated; and
  Strengthened Finance Team.

Department of Culture Arts and Leisure

32. The Department is responsible for ensuring that the financial and other management controls applied by the Department to the Sports Council are appropriate and sufficient to

safeguard public funds, and for monitoring the Sports Council's compliance with those controls. The Department must be satisfied that the internal controls applied by the Sports Council conform to the requirements of regularity, propriety and good financial management. I asked the Department how it had addressed the risk of fraud during the design of the Safe Sports Ground Scheme, and what measures it asked the Sports Council to put in place to prevent and detect fraud. The Department told me that the systems and procedures established to administer the Safe Sports Grounds programme were based on those already in place for other capital programmes. The risks posed by the new programme were not considered at that time to be inherently different thereby meriting a new risk assessment. In addition, the measures taken to further strengthen procedures following the letter of concern were regarded, at the time, as sufficient to prevent fraud on the basis of the issues highlighted in the letter. The fact that the Sports Council immediately brought the matter to the attention of the Department and that it was considered at the highest levels is evidence of the seriousness with which the matter was treated.

33. The Sports Council have subsequently revised their grant payment procedures to incorporate the recommendations made as a result of the investigation and 15 staff involved in the grant process will be undertaking training this autumn to improve their skills in this area. The Department will also be carrying out an independent audit of the Sports Council to ensure that audit recommendations are being implemented, that appropriate steps have been taken to ensure understanding of, and compliance with, fraud procedures and to ensure that a proper risk assessment process is applied to new and existing funding programmes.

34. I informed the Department that in future I would expect to see a well documented risk assessment as part of their consideration of any scheme.

Conclusions

35. I consider that payments by the Sports Council during 2001-02 amounting to £95,869 were irregular on the grounds that they were based on fraudulent documentation and misrepresentations from applicants, in contravention of rules contained in Government Accounting Northern Ireland. As a result I qualified my opinion on the accounts in respect of the matters reported at paragraphs 5 to 34 above.

Livestock and Meat Commission for Northern Ireland

1. The Livestock and Meat Commission for Northern Ireland (LMC) was established in 1967 for the benefit of the livestock and livestock products industries in Northern Ireland. It is an Executive Non-Departmental Public Body (NDPB). Although its activities are funded through both commercial income and a statutory levy rather than by a grant from its sponsor - the Department of Agriculture and Rural Development (DARD), these are still considered to be "public funds" as defined in Government Accounting Northern Ireland (GANI). The LMC is therefore required to follow public sector guidance.

2. Following the Audit and Accountability (Northern Ireland) Order 2003 I have been appointed as the statutory auditor of 13 additional NDPBs, including the LMC, with effect from the first full financial year commencing on or after 1 April 2003.

Accountability

3. Upon my appointment I noted two important accountability issues relating to the LMC. These issues, together with other concerns on governance, policies and procedures were also highlighted in a consultants' report in February 2004 commissioned by the LMC Board.

4. The accountability framework which should be in place for NDPBs is set out in GANI, and two of the key components are:

- the appointment of an Accounting Officer (normally the Chief Executive of the body) by the sponsor department. Responsibilities of this function include being answerable to Parliament for the resources under his/her control, signing the body's accounts and ensuring the body has sound systems for financial management in place; and
- a financial memorandum or equivalent document which sets out a clear strategic control framework within which the NDPB should operate.

5. Prior to 2003-04 the Commission's financial statements were signed off by the Chief Executive. However he had not been formally appointed as an NDPB Accounting Officer. In the absence of an Accounting Officer appointment DARD decided that the Commission's 2003-04 financial statements would be signed off by the Accounting Officer of the parent department.

6. Although the LMC was established many years ago and the need for a financial memorandum or equivalent document was highlighted following the quinnquennial review in 1997-98, none had been agreed with the body until 7 March 2005. Whilst the LMC does not receive grant in aid from DARD a financial memorandum is still an essential element of the accountability framework to set out the limits of delegated authority given to the body and when it must seek approval for certain activities.

Procurement

7. The purchase of goods and services in the public sector is regulated by EU Procurement Directives and associated regulations, and the requirements contained in GANI and other central government guidance. The consultants' report highlighted several contracts which did not comply with these requirements, and these findings were consistent with subsequent reviews performed by both DARD's Internal Audit branch and my own staff. The weaknesses reported in these reviews included:

- the awarding of services relating to the Lamb Campaign without public advertisement, or advertisement in the EC Journal as required for contracts above £99,695. The successful contractor quoted £1,915,000, although the total actually paid to the contractor was £646,361 over a two year period;
- the awarding of services relating to the Beef Information Campaign costing £131,205 without public advertisement, or advertisement in the EC Journal;
- part of the evaluation of the Lamb Campaign was commissioned by the contractors themselves from an independent research body which reported directly to the LMC;
- occasions where procurement decisions were not adequately documented;
- business cases not being submitted for proposed expenditure;
- printing services being purchased without a tendering exercise being carried out, although I note that the most recent contracts for these services (awarded in January and April 2004) comply with procurement procedures.

8. The reviews have uncovered several instances where EU and GANI procurement rules were not observed, and also noted breaches of the LMC's own procurement procedures. In addition, Internal Audit found that LMC procurement staff were not aware of public sector procurement rules, which are also reproduced in the DARD Financial Reporting and Accounting Procedures Manual.

9. Key responsibilities of Government departments include ensuring that NDPBs have access to this guidance and are applying it in practice. When Accounting Officers are appointed it is standard practice for their formal letter of appointment to encourage attendance at public accountability training and to note the availability of training packages specifically tailored for the needs of individual Accounting Officers. Since no Accounting Officer had been appointed for the LMC the normal prompt for this training had not been triggered.

10. The LMC also has a responsibility to ensure that it is aware of the requirements of the public sector environment within which it operates. Indeed many of the procurement issues highlighted are sound commercial practice which help achieve value for money and would apply equally to private sector organisations.

11. I asked DARD why the breakdown in procedures had occurred. The Department accepted that the LMC had not been clear about the details of the relevant procurement rules and the need to comply with them, and that earlier action by the Department to complete the accountability framework might have brought forward the issues and the clarity required. It was in the nature of "arms length" bodies such as the LMC, and their level of independence on day-to-day decisions that they would in practice perform most of their own economic activities, including procurement. Nevertheless, future compliance with

procurement procedures will be assured from April 2005 when the LMC will have a Service Level Agreement with the Central Procurement Directorate of the Department of Finance and Personnel, or with an alternative Centre of Procurement Expertise (COPE).

12. In light of this breakdown in procedures I asked the Department what assurance it had that no impropriety had taken place in the LMC. The Department said that the LMC had been subject to annual audits (both internal and external) and a detailed examination by independent consultants, and no evidence had been uncovered of any impropriety.

Northern Ireland Food Chain Certification Ltd

13. The Northern Ireland Food Chain Certification Ltd (NIFCC) is a company limited by guarantee which was established in 2001 to provide assurance, inspection, certification and administration services to the Northern Ireland agri-food industry. The establishment of the company followed discussions between the LMC, the agricultural industry, DARD and LEDU. DARD told me that indicative quotations for these services had been provided by GB-based companies and it was decided that the LMC would facilitate the setting up of a dedicated, not-for-profit company.

14. When NDPBs are involved in the creation of a separate company I would expect them to obtain formal approval from their parent department. However without a financial memorandum being in place for the LMC, it is unclear whether it needed approval to transfer functions to the NIFCC. In the event, the LMC entered into an agreement with the NIFCC in 2001 for certification services without obtaining formal approval and without conducting a tendering exercise. The LMC should ensure that the services are subject to standard procurement processes.

15. The LMC together with related industry groups, including farming groups, are the subscribers to the company. There are close links between the NIFCC and the LMC, for example the Chief Executive of the LMC was the previous chair of the NIFCC Board of Directors, and the LMC provides payroll, personnel and accounting services to the company.

16. In the year ended 31 March 2004, the LMC paid the NIFCC certification fees of £660,000 and £55,000 for the provision of marketing information. This formed a substantial proportion of the NIFCC's income.

17. The relationship between the NIFCC and the LMC is not apparent from the LMC's financial statements, and it would be good practice for the financial statements to be more transparent about this relationship. The Financial Reporting Standards also require the level of transactions between the two entities to be noted as “related party” transactions in the LMC's financial statements.

Action taken

18. I asked the Department what steps had been taken to address these weaknesses. They told me that:

- The LMC Board has accepted the recommendations made in the 2004 consultants' report and the Chairman and two of the non executive directors have formed a working group to ensure that the recommendations are implemented. The Board has engaged an external consultant to assess the implementation of the recommendations and report the progress to the Board;

- All findings and recommendations from DARD's Internal Audit Report were accepted by the LMC's Board and Audit Committee and progress against implementation of the recommendations will be followed up in the next scheduled review which will also review progress on the implementation of the key recommendations arising from the 2004 consultants' report;
- When DARD became aware that public sector procurement procedures were not being fully adhered to, the Department ensured that the LMC was provided with further copies of the relevant guidance on procedures. Since then, the LMC has instigated a number of tendering initiatives, including the services provided by NIFCC directly with Central Procurement Directorate;
- Due to the weaknesses identified in the 2004 consultants' report DARD felt that it was appropriate to nominate a senior officer onto the LMC Board as an observer providing the Department with a better insight into the workings of the LMC. DARD Finance staff have delivered training to LMC staff on business planning, corporate governance and risk management and have reissued all the guidance referred to in the Management Statement and Financial Memorandum (MSFM) and other essential guidance as well as GANI 2004;
- A MSFM has now been signed between DARD and the LMC which has a clear definition of authorities and responsibilities between DARD and the LMC. The Department has also recently designated the LMC Chief Executive as Accounting Officer.

19. I welcome these actions. In addition I would suggest:

- The LMC should ensure that its staff are familiar with public sector guidance and seek training where necessary;
- A timetable for the implementation of recommendations from both the consultants' and Internal Audit reports should be set and progress against this monitored regularly by the LMC Board and the Department;
- A follow up review should be conducted once the recommendations have been implemented to ensure that the systems are operating effectively.

Conclusion

20. I am concerned at the long delay in establishing a Management Statement and Financial Memorandum and appointing an Accounting Officer for this NDPB and am pleased to see these are now in place.

Accountability to Parliament by Education and Library Boards

Introduction

1. I previously reported on Accounting to Parliament by Education and Library Boards in Northern Ireland in my General Report 2002-03 (HC 673 Session 2003-04, NIA 41/03). At that time I undertook to keep progress under review and I now report accordingly.

Finalisation, audit and laying of accounts

2. I reported on the principal adjustments required to the accounts of the Education and Library Boards (the Boards), my concern at the considerable time taken to process these adjustments and the consequent delays in finalising the accounts.

3. I reproduce below a Figure setting out the position as it stood at the time of my 2002-03 General Report.

Figure 3: Date of Certification of Boards' Accounts

Year of account	Belfast	North Eastern	South Eastern	Southern	Western
1999-2000	20.6.02	16.5.02	5.6.02	26.9.02	13.3.02
2000-2001	4.3.03	27.3.03	27.1.03	14.10.03	17.6.02
2001-2002	*	*	22.4.04	*	3.3.04
2002-2003	*	*	*	*	*

* indicates that the Board's finalised accounts for that year of account have not yet been submitted for certification

4. The Boards' 2000-01 accounts, all of which I had previously certified, have now been laid. However, in the period since my last Report, I have not been able to certify any of the Boards' accounts reported as outstanding in the above figure. This is either because the Boards have not finalised their accounts, or they have not been able to provide me with sufficient, reliable evidence to support certain amounts included in the accounts.

5. Since my last Report, each of the five Boards has produced draft 2003-04 accounts. I am unable to certify these accounts until the accounts for earlier years have been finalised.

6. Finalisation of the outstanding accounts must now be a high priority for the Boards and the Department must ensure that this is done. I asked the Department what actions it is taking to ensure that Boards provide finalised accounts to me and whether a timetable has been set. I was told that finalisation of Board accounts was a high priority for the Department. To this end the Department earlier this year carried out an exercise to substantiate and verify the level of indebtedness between the Boards and the Department with a view to setting a realistic timetable for the resubmission of all Board accounts and would hope that this could be achieved by the end of July 2005.

7. In my 2002-03 General Report I set out my view that there was a case for a thorough review of the Boards' accounts to reflect experience from the first four years of accruals accounting and the alignment of the Boards' accounting policies, practices and counter party balances with the Department's resource accounting regime. The Department accepted this recommendation and commissioned consultants to undertake a review covering this ground. Their report has now been received by the Department.

8. Additionally, for the two Boards reported below, further significant issues of accountability and financial control emerged in connection with the draft 2003-04 accounts. The Department of Education (the Department), which is accountable for the Boards, initiated an enquiry into financial management and control standards at the two Boards concerned. The enquiry was conducted under Article 108 of the Education and Libraries (Northern Ireland) Order 1986 and its findings and recommendations were reported to the Department in April 2005.

Belfast Education and Library Board

9. The Board's 2003-04 draft accounts indicated that it had overspent its budget for that year by £5.4 million. In the process of quantifying the overspend it identified a further adjustment of £2.1 million in 2002-03 which the Department has indicated the Board will have to reflect in its accounts for that year.

10. The Board took a number of steps including commissioning consultants to investigate matters connected with the overspend.

11. The Department has indicated that the overspend for 2003-04 appears to be the result of a combination of factors including the impact of some schools overspending their delegated budgets, expenditure on classroom assistants and special education and inappropriate accounting treatment of some items.

12. In view of the overspend reflected in the draft 2003-04 accounts, the Belfast Education and Library Board was one of the Boards subject to the enquiry under Article 108 of the Education and Libraries (Northern Ireland) Order 1986.

13. Additionally, I did not agree with the Board's accounting treatment in its 2001-02 accounts for certain transactions under the private finance initiative. The accounting treatment will also affect subsequent years' accounts. My staff had discussions with the Board and Department and a revised accounting treatment has been agreed.

14. I await revised draft accounts from the Board for the 2001-02, 2002-03 and 2003-04 financial years.

South Eastern Education and Library Board

15. The Department has indicated that the Board reported that it had incurred a deficit on the Income and Expenditure Account of £5.66 million in 2003-04.

16. The Board took a number of steps including commissioning consultants to enquire into matters connected with the overspend.

17. The Department has indicated that the overspend appears to be the result of a combination of factors including expenditure on classroom assistants, special education and transport that was significantly over budget. The South Eastern Education and Library Board was also subject to the enquiry under Article 108 of the Education and Libraries (Northern Ireland) Order 1986.

18. I await revised draft accounts from the Board for the 2002-03 and 2003-04 financial years.

Participation by Boards in consolidation processes for 2003-04 Central Government Accounts

19. The Department told me in connection with my 2002-03 General Report that it had made good progress in working with the Boards to prepare for the requirements of Central Government Accounts. At that time, the Department told me that its staff had carried out a dry run for Boards for 2002-03 and would explain the processes to Boards' staff for the returns for 2003-04 (the first live year for Boards' participation in Central Government Accounts). The Department also told me that it did not consider that there would be any indebtedness between the Boards and the Department so counter party balances should not occur.

20. In the course of auditing the Boards' returns for Central Government Accounts for 2003-04, my staff found that returns for three of the Boards had been prepared by the Department as the Boards concerned had not done sufficient work to meet the timetable set by the Department of Finance and Personnel. Consolidation returns for one Board were not available to meet the timetable set by the Department of Finance and Personnel.

21. In my view, the Department, as the Boards' principal sponsoring Department, should have ensured that the Boards' Consolidation Officers were in a position to prepare consolidation information in accordance with the form, manner and timetable issued by the Department of Finance and Personnel. The Department told me that it takes this responsibility very seriously and invested significant effort to ensure that the Boards had the necessary assistance and skills to meet the deadlines relating to the Central Government Accounts process. This included preparation of a set of "dry run" Central Government Accounts for 2002-03 and a series of presentations and meetings with Boards between March and June 2004 to raise awareness of the principles and processes involved in Central Government Accounts, culminating in a presentation by HM Treasury in August of completion of the necessary returns. Central Government Accounts was also included on the agenda of the Department's twice yearly Accountability Reviews with the Boards to raise awareness among Chief Executives and to monitor progress. The Department was particularly disappointed, therefore, that it had to prepare returns for three of the Boards.

22. I asked the Department what steps it intended to take in relation to Central Government and Whole of Government Accounts in future years. I was told that the Department had copied the feedback from the Northern Ireland Audit Office in relation to the 2003-04 Central Government Accounts to the Boards and is arranging a meeting with the Chief Finance Officers to discuss the way forward. The Department will meet regularly with the Boards to monitor progress and provide advice on the 2004-05 Central Government Accounts and this issue will remain a standing item on the agenda of the Accountability Review meetings. The Department told me this should ensure that the

Boards are in a position to provide consolidation information in accordance with the form, manner and timetable required by the Department of Finance and Personnel.

Indebtedness between Boards and the Department

23. I am concerned by the accumulation of indebtedness between Boards and the Department, particularly as the Department told me that cumulative balances should not be built up. One of the principal difficulties in finalising the audits of the five Boards has been confirming Boards' reported indebtedness with their three sponsoring Departments - the Department of Education, in particular, which forms the largest element of the reported balances. Progress has now been made in confirming these balances.

24. Figure 4 sets out balances with the three sponsoring Departments reported in the Boards' accounts since the introduction of "end of year flexibility" accounting[1] in 2001-02. (Draft accounts have been used for years for which accounts remain to be finalised (as indicated in Figure 3).)

Figure 4: Balances with Departments included in Boards' Accounts

Balance sheet date	Belfast £'000	North Eastern £'000	South Eastern £'000	Southern £'000	Western £'000
31.03.02	1,495	7,908	4,852	5,843	(4,455)
31.03.03	7,259	8,838	1,597	13,018	(29,570)
31.03.04	7,260	19,030	1,833	14,251	(30,518)

25. I have noted that the resource accounting regime applicable to the Department does not require it to account for corresponding balances with the Boards.

26. Any amount not accepted by the sponsoring Departments will reduce the relevant Board's surplus for the year (or increase the deficit) in the case of revenue debtors (or reduce working capital and reserves in the case of capital debtors).

27. Additionally, a large element of the debtor balance reflected in the Boards' accounts relates to funding in connection with arrears for job evaluations. When I reported to the Northern Ireland Assembly on job evaluations in Boards in 2001, the Department told me that it looked to the Boards in the first instance to absorb costs through efficiency savings. In light of that, I asked the Department whether it proposes to fund job evaluation arrears. I was told that the Department of Education in 2002-03 provided £14 million to Boards in respect of costs arising from job evaluations of former manual workers, including arrears (from January 2002). In the case of job evaluation of classroom assistant posts the Department of Education in 2003-04 provided £16 million in respect of costs arising - principally for arrears, which in some cases go back to 1995. Since those allocations, the Department has included provision for ongoing costs in Board budgets. The Department is

1. "End of year flexibility" accounting was an accounting and funding arrangement introduced by the Department for Boards in 2001-02. It was intended to avoid the disbursement of large sums of cash from the Department to Boards at the end of financial years.

currently holding funds for costs (including arrears) arising from the job evaluation - yet to be agreed - of specialist aspects of certain classroom assistant posts. Should other arrears be payable as a result of job evaluations, this will be a matter for the Boards.

28. I am also concerned that not all job evaluation costs have yet been reflected in accounts. In 2003 my staff asked the Department, amongst other matters, for its assessment of the costs of job evaluations. While the Department did not hold this information centrally it provided a collective response from the Boards. This indicated that the major group still to be assessed was some 5,000 school-based classroom assistants, that the likely outcome will be considerable costs to the Boards and that there would not be the resources in existing budgets to meet these costs. As well as the classroom assistants, at the time of the Boards' collective response to the Department, 705 other staff remained to be evaluated and appeals were outstanding. Paragraph 27 sets out the most recent information provided by the Department on the funding position.

29. As I have mentioned at paragraph 27 above, I have previously reported on Job Evaluations in Boards and the Public Library Service in my Report on Northern Ireland Appropriation Accounts, 2000-01 (NIA 34/01). I am keeping this issue under review and may report further.

30. It is important that any further costs which the Department (or Department of Culture, Arts and Leisure, in the case of Board employees in the public library service) does not propose to fund should be reflected in the annual accounts as soon as a reliable estimate can be made, even if this requires 2002-03 or 2003-04 draft accounts to be further amended. The Department and Boards need to consider the effects of these points when making arrangements to finalise outstanding accounts.

Conclusion

31. I am awaiting finalised accounts from certain Boards for the 2001-02, 2002-03 and 2003-04 financial years.

32. I look to the Department to ensure that Boards' outstanding accounts are finalised quickly and to a high standard and to make sure that their 2004-05 and subsequent accounts are submitted to me by 30 June annually to a high standard and that good working papers are available to support them. The Department must also ensure that Boards participate fully in consolidation processes for Central Government and Whole of Government Accounts.

33. I will keep progress under review and report further in due course, if necessary.

Part 3

Northern Ireland Consolidated Fund

Northern Ireland Consolidated Fund

Revenue Accounts

1. The total revenue paid into the Northern Ireland Consolidated Fund in 2003-04 amounted to £9,694 million analysed as follows:

	2003 – 2004 £ million	**2002-2003 £ million**
Receipts from the United Kingdom Government:		
Block Grant	8,505	7,799
Other revenues:		
Rates	651	609
Interest on loans and advances	153	161
Excess Accruing Resources	37	31
Share of receipts from petroleum licences	13	16
Other Receipts	335	177
Totals:	**9,694**	**8,793**

2. In fulfilment of my statutory duty I examined the departmental accounts of the receipts of revenue, and I confirmed that adequate regulations and procedures had been framed to secure an effective check on the assessment, collection and proper allocation of revenue. I also test-checked the correctness of the sums brought to account and I have no comment to make thereon.

3. A summary of the outturn in the year of rate levy and collection is:

	2003-2004 £ million	**2002-2003 £ million**
Arrears at 1 April	24	22
Assessments during the year	744	687
Credit carried forward to next period	3	2
	771	711
Discharged during the year by:		
Credits brought forward from last period	2	2
Net receipts	654	606
Vacancies	57	54
Rebates	18	16
Allowances/Disabled Person's Allowance	5	5
Discounts	3	3
Written – off as irrecoverable	2	1
Residential Home Relief and other Reliefs	6	(1)
Arrears at 31 March	24	25
	771	711

4. Assessments rose by £57 million and net receipts by £48 million during the year. Arrears at 31 March 2004 represented 3.2 per cent of the collectable rates for the year, compared with 3.5 per cent in the previous year.

5. The difference of £3 million between the net receipts of rates of £654 million shown in paragraph 3 above and the rates paid into the Consolidated Fund of £651 million shown in paragraph 1 represents the adjustment required for funds of £3 million transferred in advance in 2002-03.

Consolidated Fund Issues

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

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

Issues for Supply Services are accounted for in the Resource Accounts and issues for Consolidated Fund Services are accounted for in the Public Income and Expenditure Account which is certified by me under Section 2 of the Exchequer and Financial Provisions Act (Northern Ireland) 1950.

Consolidated Fund Services

7. The Public Income and Expenditure Account has been published separately as a White paper Account (HC 24). The account broadly distinguishes:

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

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

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

8. Total issues in 2003-2004 amounted to £8,637 million compared with £12,005 million in 2002-2003.

	2003-2004 £ million	2002- 2003 £ million
Redemption of Public Debt	431	114
Interest on Borrowings	132	139
Loans for Capital Expenditure	41	20
District Councils' share of Rates Revenue	288	269
Miscellaneous Services	1	1
Advances for Contingencies	-	5
Temporary Investments	7,744	11,457
	8,637	**12,005**

9. Issues for the redemption of public debt were £317 million more than in 2002-03. £310 million of this increase is due to the repayment of borrowings from internal funds arising from the inclusion, for the first time this year, of EU monies formerly held in the Pay Master General's account. In addition there was also an increase of £3 million in the redemption of Ulster Savings Certificates and an increase of £4 million in payments to the National Loans Fund.

10. Interest on borrowings decreased by £7 million due to a decrease of £9 million on payments to the National Loans Fund and an increase of £2 million in Ulster Savings Certificates.

11. Surplus monies held in the Consolidated Fund are invested in the short-term money market. In 2003-2004 these investments totalled £7,744 million compared with £11,457 million in 2002-2003. The sums available are subject to fluctuation depending upon the daily cash flow needs of individual departments.

Printed in the UK by The Stationery Office Limited on behalf of the Controller of
Her Majesty's Stationery Office

Dd PC1431 C5 07/05

Published by TSO (The Stationery Office) and available from:

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ISBN 0-102-93135-6

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