



Northern Ireland Audit Office

Financial Auditing and Reporting: General Report by the Comptroller and Auditor General for Northern Ireland - 2013



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
5 November 2013



Northern Ireland Audit Office

Financial Auditing and Reporting: General Report by the Comptroller and Auditor General for Northern Ireland - 2013

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

K J Donnelly

Comptroller and Auditor General

Northern Ireland Audit Office

5 November 2013

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

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Abbreviations

ALB	Arm's-Length Body
ALP	Advance Land Purchase
ATLAS	Automatic Transfer to Local Authority System
BELB	Belfast Education and Library Board
BIS	Department of Business, Innovation & Skills
C&AG	Comptroller and Auditor General
CMED	Child Maintenance and Enforcement Division
CMS 2012	Child Maintenance Service 2012
CMT	Case Monitoring Team
CS2	Child Support 2 System
CSCS	Child Support Computer System
DARD	Department of Agriculture and Rural Development
DCAL	Department of Culture, Arts and Leisure
DE	Department of Education
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety
DIA	Disability Living Allowance
DoE	Department of the Environment
DOJ	Department of Justice
DRD	Department for Regional Development
DSD	Department for Social Development
DWP	Department of Work and Pensions
ELB	Education and Library Board
ESA	Employment and Support Allowance
EU	European Union
GB	Great Britain

Abbreviations

GMIS	Grant Maintained Integrated Schools
HMRC	Her Majesty's Revenue and Customs
HSC	Health and Social Care
IAS	International Accounting Standard
IFRS	International Financial Reporting Standard
IT	Information Technology
LAEO	Legal Aid Assessment Office
LPS	Land & Property Services
NDPB	Non-Departmental Public Body
NEELB	North Eastern Education and Library Board
NFI	National Fraud Initiative
NI	Northern Ireland
NIAO	Northern Ireland Audit Office
NICF	Northern Ireland Consolidated Fund
NICS	Northern Ireland Civil Service
NIFRS	Northern Ireland Fire and Rescue Service
NIHE	Northern Ireland Housing Executive
NILA	Northern Ireland Library Authority
NILSC	Northern Ireland Legal Services Commission
OFMDFM	Office of the First Minister and Deputy First Minister
PAC	Public Accounts Committee
PAYE	Pay As You Earn
PIP	Personal Independence Payments
PMG	Paymaster General Account
PPE	Property, Plant and Equipment

PPS	Public Prosecution Service
RPI	Retail Price Index
SAU	Standards Assurance Unit
SELB	Southern Education and Library Board
SEELB	South Eastern Education and Library Board
SFB	Student Finance Branch
SFP	Single Farm Payments
SFCS	Social Fund Computer System
SIS	Single Investigation Service
SLC	Student Loans Company
SLRM	Student Loan Repayment Model
SSA	Social Security Agency
UK	United Kingdom
VGS	Voluntary Grammar Schools
VSS	Victims and Survivors Service
WELB	Western Education and Library Board

Foreword



Personal Financial Statement

Foreword

This report to the Northern Ireland Assembly summarises the results of the financial audit work undertaken on my behalf by the Northern Ireland Audit Office. It deals with the accounts of government departments and their arm's-length bodies. It does not include the health and social care sector bodies as these will be published in a separate General Report.

The prime function of financial audit is to provide independent assurance, information and advice to the Northern Ireland Assembly on the proper accounting for and use of public funds. In addition, we strive to assist audited bodies to improve their financial management processes, governance and propriety in the conduct of public business. Our close partnership with the Public Accounts Committee (PAC), including briefings for evidence sessions, enables us to assist them in holding public bodies to account.

This General Report prompts a timely focus on the qualified opinions and reports issued on departmental resource accounts and other accounts for 2012-13. This will enable the lessons to be applied in time for the next financial year of accounts and therefore to make a difference. This is when the value of public audit is at its strongest.

The standards of financial accounting continue to remain high, demonstrated by the quality and timeliness of financial reporting. Many of the issues raised this year reflect my findings in 2012 and result from failures to comply with instructions from governing authorities, including failure to obtain DFP expenditure approvals. These matters meant that my audit opinion for these bodies was qualified.

This year I have once again undertaken a review of how quickly public sector bodies are paying

suppliers, extending my review to include an additional 22 Arm's-Length Bodies sponsored by central government and seven additional health sector bodies. Prompt payment performance has improved across most sectors, but there is still scope for improvement by many public bodies.

I have also provided an insight into the cost of providing Student Loans to Northern Ireland students and the complexities of accounting for the resulting debt within the financial statements of the Department for Employment and Learning.

In conducting financial audit work I am always mindful of the need to provide "added value" to audited bodies. Our oversight of public bodies affords us a unique position to identify examples of good practice and promulgate these throughout the public sector. It is reassuring that audited bodies implemented a significant number of changes as a result of recommendations arising from our financial audit work.

The need for effective, efficient and independent audit scrutiny of public sector bodies is never more essential when competing pressures on public sector resources are at their highest. I thank my staff within the Northern Ireland Audit Office for their continued professionalism in this work. I am also very grateful to the staff in the Northern Ireland Civil Service and the other public bodies audited for their continuing cooperation.

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November 2013

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



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

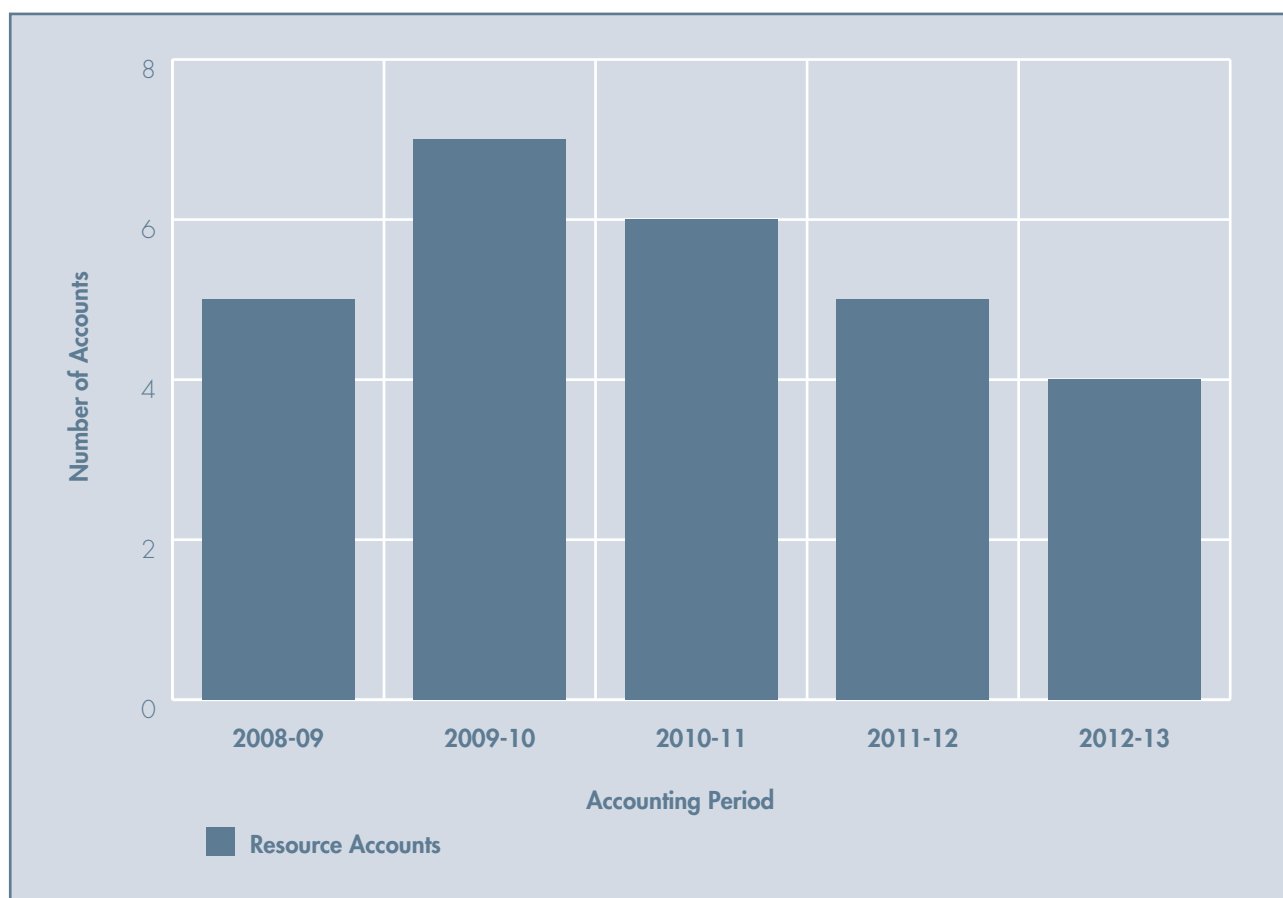
1.1 Qualified Opinions – Departmental Resource Accounts

1.1.1 The quality of resource accounts submitted for audit has significantly improved since the introduction of accrual based accounting in central government. **Figure 1** illustrates the number of qualifications¹ on resource accounts for a five year period 2008-09 to 2012-13. In the 2012-13

accounting period, four of the nineteen resource accounts were qualified (21 per cent). The reasons for the qualifications were benefit fraud and error; a failure of departments to obtain necessary DFP approvals; and EU fines incurred as a result of failure to comply with EU regulations.

1.1.2 When qualifications arise, this is indicative of weaknesses in financial

Figure 1: Number of Resource Account Qualifications for Accounting Periods 2008-09 to 2012-13



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

control. **Figure 2** contains brief details of the four resource accounts which

received qualified audit opinions for the 2012-13 financial year.

Figure 2: Qualified Resource Accounts

Department	Nature of the Qualification
Department for Social Development 2012-13 (Paragraph 3.1)	<p>The audit opinion has been qualified for a considerable number of years and is qualified again this year because of significant levels of fraud and error in benefit expenditure (excluding state pension).</p> <p>Total benefit expenditure (excluding state pension) paid by the Department for Social Development (DSD) in 2012-13 was £3.5 billion and of this, DSD estimated losses due to fraud and error of £67.6 million in overpayments and of £15.3 million in underpayments due to official error.</p> <p>In addition I provided an update on issues relating to Housing Associations and the investigation of two organisations which had received funding as a result of ministerial directions.</p>
Department of Agriculture and Rural Development 2012-13 (Paragraph 3.2)	<p>The audit opinion on the Department of Agriculture and Rural Development's (DARD) Accounts was qualified on the grounds of regularity. During the 2012-13 financial year, DARD accrued £12 million in its resource accounts to make good the shortfall in EU Funding due to be paid to the EU in respect of financial corrections. This represents a loss to public funds which falls outside the Assembly's intentions in relation to the proper administration of EU funding. I have therefore concluded that expenditure has not been applied for the purposes intended by the Assembly and does not conform to the authorities which govern it.</p>
Department of Education 2012-13 (Paragraph 3.3)	<p>The audit opinion on the Department of Education's (DE) Accounts was qualified in 2011-12 and again in 2012-13 due to pay remits for non teaching staff in Voluntary Grammar Schools and Grant Maintained Integrated Schools not being approved by the Department or DFP. Consequently the relevant expenditure of approximately £14 million in respect of 2012-13 is deemed irregular.</p>
Department of Culture, Arts and Leisure 2012-13 (Paragraph 3.4)	<p>The audit opinion of the 2012-13 Department of Culture, Arts and Leisure's (DCAL) Accounts was qualified due to a failure by DCAL to provide adequate evidence of legal ownership of certain non-current assets and as a result was unable to provide me with sufficient appropriate audit evidence to support:</p> <ul style="list-style-type: none"> • Land and buildings valued at £3,957,000; • Other land and buildings which may be owned by the Department but which are not included in the financial statements; • Sporting and fishing rights valued at £290,000; and • Other sporting and fishing rights which may be owned by the Department but which are not included in the financial statements.

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

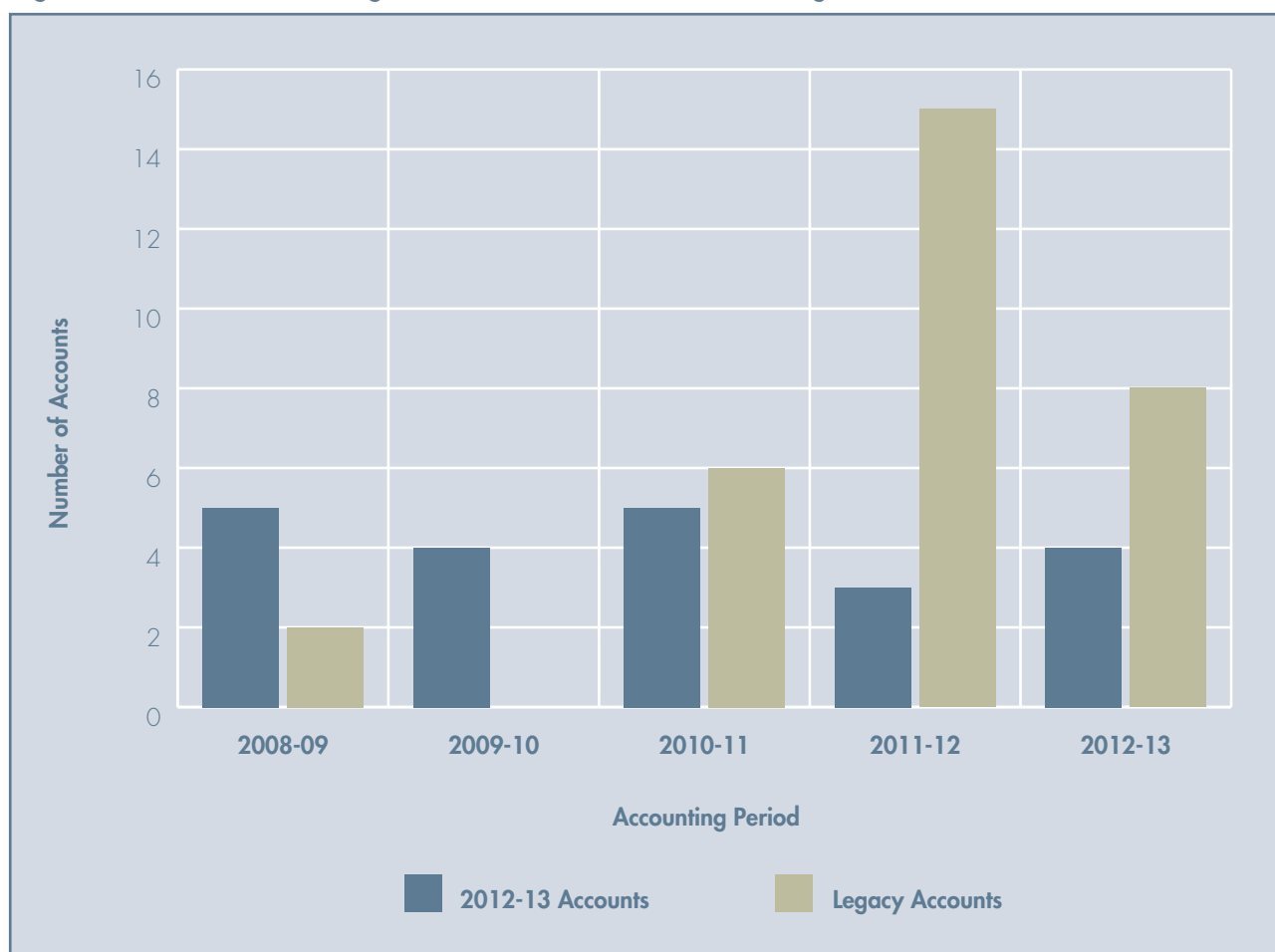
1.2 Qualified Opinions – Arm’s-Length Bodies

1.2.1 Since the last General Report I have qualified 12 sets of accounts of Arm’s-length Bodies (ALBs) sponsored by central government departments. Four were in respect of the 2012-13 accounting period and the remaining eight related to previous accounting periods (legacy accounts). These legacy accounts usually contain challenging issues requiring further detailed

investigation which can delay their certification. **Figure 3** illustrates the number of qualifications on accounts for ALBs, for a five year period 2008-09 to 2012-13.

1.2.2 Details of three of the four 2012-13 ALB accounts qualified are outlined at **Figure 4** and the full content of the qualifications can be found in **Sections 4 and 5**. I also qualified my audit opinion on the NI Housing Executive 2012-13 accounts².

Figure 3: Number of Arm’s-Length Bodies Qualifications for Accounting Periods 2008-09 to 2012-13



49 Northern Ireland Housing Executive: Report by the Comptroller and Auditor General on the 2012-13 Accounts details can be found on the NIAO website http://www.niauditoffice.gov.uk/index/publications/recent_reports/final_report_nihe_12-13_final.pdf

Figure 4: Qualified Accounts – Arm’s-Length Bodies

Name of Public Body	Nature of the Qualification
Northern Ireland Social Security Agency 2012-13 (Paragraph 4.1)	The audit opinion on the Social Security Agency (SSA) has been qualified for a considerable number of years and is qualified again this year because of significant levels of fraud and error in benefit expenditure (excluding state pension). Total benefit expenditure (excluding state pension) paid by SSA in 2012-13 was £2.8 billion and of this, SSA estimated losses due to fraud and error of £41.6 million in overpayments and of £10.1 million in underpayments due to official error.
Child Maintenance and Enforcement Division Client Funds 2012-13 (Paragraph 5.1)	The audit opinion on the Child Maintenance and Enforcement Division (CMED) Client Funds account was qualified in respect of two issues: <ul style="list-style-type: none"> • The extent of estimated levels of error in maintenance assessments which I considered to be material; and • A lack of evidence to substantiate £81.5 million of outstanding maintenance arrears.
Northern Ireland Legal Services Commission 2012-13 (Paragraph 5.2)	I qualified my opinion on the Northern Ireland Legal Services Commission (NILSC) for two reasons: <ul style="list-style-type: none"> • NILSC was unable to provide me with sufficient evidence to support key assumptions and judgements underpinning the management information it used to estimate provisions of £88.5 million for the cost of legal aid cases, having only provided sufficient evidence for very high cost cases of £7.1 million. Consequently I was unable to determine if any adjustments to Legal Aid provisions were necessary. • NILSC incurred Legal Aid expenditure of £102.2 million during 2012-13. However, it was unable to provide sufficient evidence to enable me to conclude that a material amount of this expenditure had not been fraudulently claimed. Therefore the scope of my audit was limited in this respect and I was not able to form an opinion on whether all of the expenditure was in accordance with the purposes intended by the Assembly and whether it conformed to the authorities which govern it.

1.2.3 It is notable that there has been an increase in the number of qualified legacy accounts of ALBs over the last two accounting periods (**Figure 3**). In my last report I provided details of the

issues which gave rise to the 2009-10 and 2010-11 qualifications. Details of the qualifications on eight ALBs’ legacy accounts are outlined at **Figure 5** and the full content of the qualifications can be found in **Section 5**.

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

Figure 5: Qualified Legacy Accounts - Arm's-Length Bodies

Name of Public Body	Nature of the Qualification
NI Social Fund 2011-12 (Paragraph 5.3)	<p>The opinion on the NI Social Fund 2011-12 accounts was qualified on the regularity of Social Fund payments (except for Winter Fuel payments and Cold Weather payments) because of the level of over and underpayments attributable to error.</p> <p>SSA has estimated that erroneous calculations in Social Fund benefit awards have resulted in overpayments in 2011-12 of £1.5 million and underpayments of £0.3 million.</p>
Ilex 2011-12 (Paragraph 5.4)	<p>Three issues arose in 2011-12 which led me to qualify my audit opinion on the regularity of expenditure:</p> <ul style="list-style-type: none"> • During 2011-12, Ilex incurred expenditure of £278,906 on two projects where they did not obtain the necessary approvals from their sponsor departments, (OFMDFM and DSD) or from DFP. Therefore I qualified my audit opinion on the regularity of this expenditure; • European Union grant funding amounting to £312,573 in relation to the Peace Bridge is expected to be disallowed because of non-compliance with procurement rules. This funding will now have to be met by the Northern Ireland Executive. This represents a loss of public funds which falls outside the Assembly's intentions in relation to the proper administration of European funding; and • The higher starting salary of a new director did not have the necessary approvals from the sponsor departments (OFMDFM and DSD) or from DFP. Ilex has confirmed that approval for this higher salary will not be given and this has resulted in irregular spend of £23,000 in 2011-12.
Northern Ireland Library Authority 2011-12 (Paragraph 5.5)	<p>The Northern Ireland Library Authority (NILA) was not able to provide me with adequate evidence of the accuracy and completeness of the valuation of its valuable books collection. As a result I qualified my audit opinion as I was unable to obtain sufficient appropriate audit evidence to support Stock Assets valued at £12.9 million included in the financial statements.</p>
Education and Library Boards 2011-12 (Five separate accounts) (Paragraph 5.6)	<p>The audit opinion for each of the five Education and Library Boards (ELBs) was qualified because of the implementation of an incremental pay award to teaching and non-teaching staff without proper approvals from DE or DFP. These awards amounted to £8.55 million across the five ELBs.</p>

1.3 Reports on Accounts by the C&AG

- 1.3.1 In the 2012-13 accounting period I also reported on two issues in the Office of the First Minister and Deputy First Minister (OFMDFM) (**paragraph 3.5**). These provided an update on issues over regularity on which I qualified my audit opinion on the 2011-12 accounts.
- 1.3.2 I reported in the 2011-12 Northern Ireland Fire and Rescue Service (NIFRS) Accounts on the findings of the investigations of NIFRS undertaken by the Department of Health, Social Services and Public Safety which is currently being considered by the Public Accounts Committee⁵⁰. I will report on this further in due course.

1.4 Outstanding Accounts

- 1.4.1 In my 2012 General Report, published in October 2012, I noted that there were ten accounts which should have been covered by the scope of that Report but at that point in time they had not been certified. The number of outstanding accounts at the date of this report has reduced from 10 in 2012 to nine in 2013. I anticipate that the majority of the outstanding accounts will be certified before the end of the year.

1.5 Conclusion

- 1.5.1 Most central government departments and their ALBs have continued to produce good quality accounts for audit scrutiny resulting in unqualified audit opinions. However, this report records the qualification of 16 accounts for which adequate audit evidence was not available to enable me to express an unqualified audit opinion or lead to a public interest report being attached to the accounts. All qualifications are indicative of weaknesses in internal control and compromise the entity's ability to provide sound accountability to the Northern Ireland Assembly. Generally there is no consistent pattern to the type of qualifications arising however in this accounting period several of the qualifications were as a result of irregular expenditure.

50 DHSSPS: Report on 2011-12 Accounts of Northern Ireland Fire and Rescue Service details can be found on the NIAO website http://www.niauditoffice.gov.uk/index/publications/financial_audit_publications/other_financial_audit_publications/dhssps_report_on_2011-12_accounts_of_ni_fire_and_rescue_service.htm

Section Two:
Northern Ireland Consolidated Fund 2012-13
– Revenue Accounts



Section Two: Northern Ireland Consolidated Fund 2012-13 – Revenue Accounts

2.1 Northern Ireland Consolidated Fund 2012-13

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

2.1.2 Payments into and out of the NICF are reported annually in the Public Income and Expenditure Account which DFP prepares and submits for audit by the C&AG in accordance with the Exchequer and Financial Provisions Act (NI) 1950.

2.1.3 Payments into the Consolidated Fund are categorised as follows:

- **Rate Revenue:** this is rates income (Regional and District) which is due for each property in Northern Ireland and is billed and collected by Land & Property Services;

- **Consolidated Fund Extra Receipts and other sums due to the NICF:**

these are receipts which are not the product of taxation for example monies received from the European Union (EU);

- **Block Grant:** this is paid by the Secretary of State for Northern Ireland out of money provided by the UK Parliament and is, subject to the limit set by HM Treasury, the balance required to bring the level of public income in Northern Ireland up to the amount needed to cover public expenditure; and

- **Borrowing for capital purposes:** the Exchequer and Financial Provisions Act (NI) 1950 provides that all money raised by the creation of debt is payable into the NICF together with receipts representing repayment of loans made from the fund and interest on those loans.

2.1.4 An analysis of the amounts paid into the Northern Ireland Consolidated Fund in 2012-13 is shown in **Figure 6**.

Figure 6: Analysis of Payments into the Northern Ireland Consolidated Fund

	2011-12 £ million	2012-13 £ million
Public Income:		
Rate Revenue	1,065	1,105
Consolidated Fund Extra Receipts and other sums due to the NICF	199	166
Block Grant	13,332	13,716
	14,596	14,987
Capital Receipts:		
Borrowing for capital purposes	401	177
Loan repayments received	98	93
Repayment of Advances from NICF	20	-
Amounts returned from Temporary Investment	1,516	1,618
Excess of Public Income over Public Expenditure	-	-
	2,035	1,888

Source: *Public Income and Expenditure Account 2012-13*

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

- **Consolidated Fund Standing Services:** payments for services which the Assembly has decided by statute should be met directly from the Fund for example interest on loans from the National Loans Fund; judicial salaries; and the salary and pension of the NI Ombudsman;
- **Supply Services:** payments required to meet other central government expenditure i.e. from departmental Supply Estimates. Money is voted by the Assembly for a particular financial year. Statutory authority for the necessary payments from

the NICF is given by the Budget Act for the year in question, which also grants authority as to what the Assembly intends the money to be used for; and

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

2.1.6 An analysis of the amounts paid out of the Northern Ireland Consolidated Fund in 2012-13 is shown in **Figure 7**.

Section Two: Northern Ireland Consolidated Fund 2012-13 – Revenue Accounts

Figure 7: Analysis of Payments out of the Northern Ireland Consolidated Fund

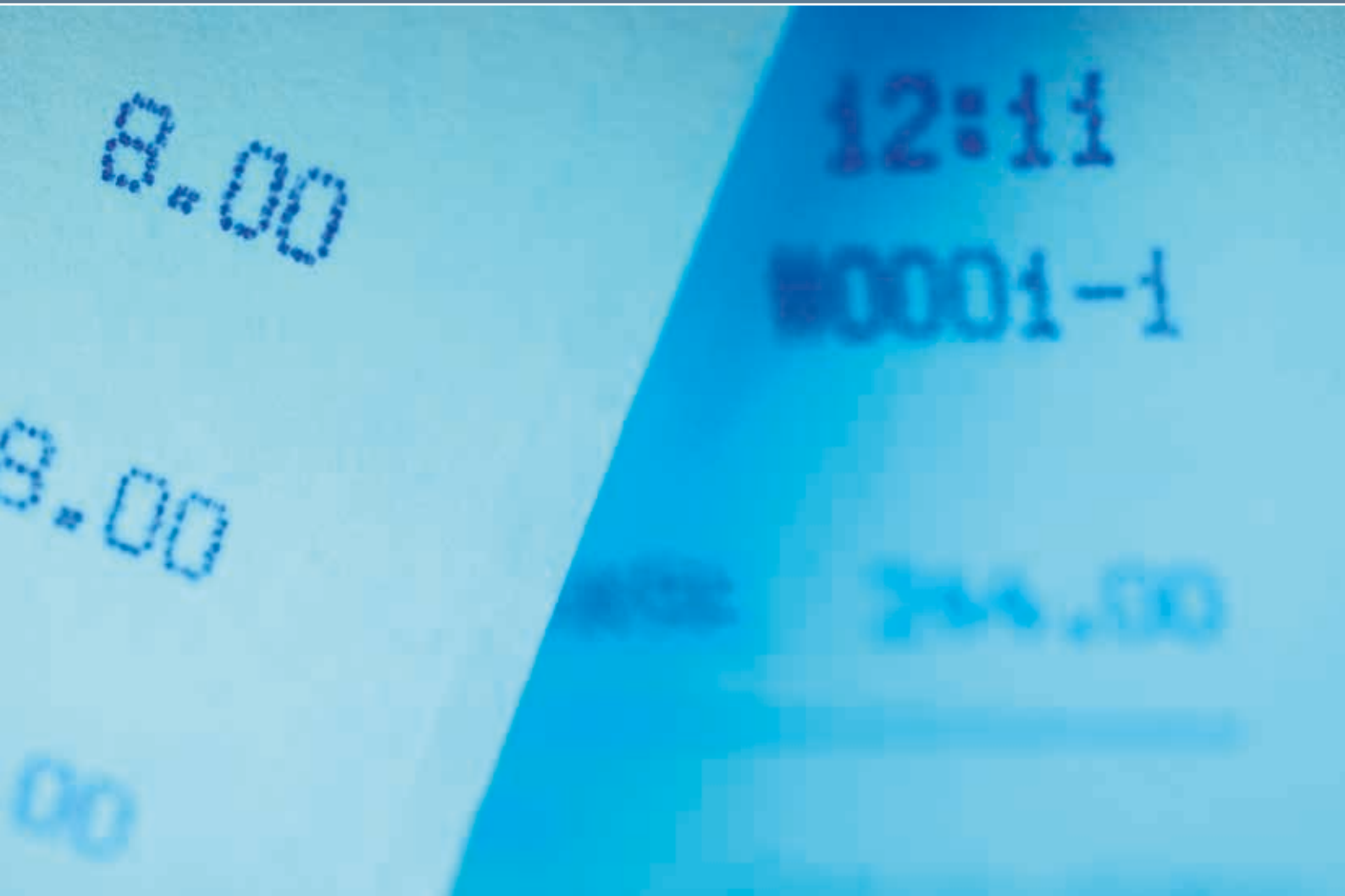
	2011-12 £ million	2012-13 £ million
Public Expenditure:		
Supply Services	14,359	14,467
Consolidated Fund Standing Services	8	9
Transfer of District Rates to Local Councils	493	516
Interest paid on Public Debt	86	84
	14,946	15,076
Capital Issues:		
Public Debt – Sums Repaid (e.g. repayments to the National Loans Fund)	134	146
Issue of Government Loans	35	35
Amounts placed on Temporary Investment	1,516	1,618
Advances from NICF	-	-
Excess of Public Expenditure over Public Income	350	89
	2,035	1,888

Source: *Public Income and Expenditure Account 2012-13*

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

2.1.8 Rates Income (Regional and District) which is billed and collected by Land & Property Services (LPS) is accounted for in the Land & Property Services Trust Statement – Rate Levy Accruals Account 2012-13 and is subject to separate audit.

Section Three: Resource Accounts



Section Three: Resource Accounts

3.1 Department for Social Development

Introduction

3.1.1 The Department for Social Development (DSD) has responsibility for housing, urban regeneration, community development, social security and child support. In 2012-13 this included the payment of £5,334 million in benefits, of which £4,682 million was paid by the Social Security Agency (SSA), £611 million was paid by the Northern Ireland Housing Executive (NIHE) and £41 million was paid by Land & Property Services (LPS).

3.1.2 This report reviews the results of my audit of the DSD's 2012-13 financial statements and sets out why I have decided to qualify my audit opinion on the regularity of benefit expenditure, other than State Pension. I have also provided an update on the issues I reported on last year.

3.1.3 It is important to note that my audit opinions on the DSD Resource Account, SSA financial statements and NIHE financial statements have been qualified for a considerable number of years because of significant levels of fraud and error in benefit expenditure. It is likely that this audit qualification will continue for the foreseeable future.

3.1.4 My audits of the 2012-13 SSA and NIHE financial statements have now been completed and in each of these I considered the estimated levels of fraud

and error in benefit expenditure to be material. Consequently, I qualified my audit opinion of:

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

3.1.5 Further details of these qualifications are included in my reports attached to the 2012-13 financial statements for SSA and NIHE. Each report details:

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

3.1.6 In addition, my audit opinion of the 2012-13 NIHE financial statements was also qualified in relation to the regularity of planned maintenance and response maintenance expenditure because of weaknesses in the management of contractors.

Qualified opinion due to fraud and error in benefit payments

3.1.7 The DSD's Standards Assurance Unit (SAU) regularly monitors and provides

estimates of levels of fraud and error within the benefit system. In order to do this, statisticians from DSD's Analytical Services Unit randomly select samples of ongoing benefit claims and SAU subject them to detailed examination for evidence of customer fraud, customer error and official error. The results of this testing are then used to produce a range of likely fraud and error in all of the main benefits (within 95 per cent confidence intervals) and the midpoint of this range is presented in Note 36 (entitled 'Payment Accuracy') to the financial statements as an estimate of the monetary value of the fraud and error in the year.

3.1.8 Note 36 explains that the estimates of fraud and error are by their nature subject to uncertainty because they are based on sample testing. These estimates do, however, represent the best measure of fraud and error available. In order to facilitate the timetable for the production of the financial statements, DSD's testing on payment accuracy is reported on a calendar year basis, not on a financial year basis. I am satisfied that this approach is reasonable.

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

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

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

3.1.12 My regularity opinion is not qualified in respect of State Pension payments because the testing carried out by SAU found no fraud within State Pension payments and the estimated level of error within State Pension is not significant (**Figure 8**).

3.1.13 **Figure 8** shows the total benefit payments made during the calendar year of 2012 and the estimated level of fraud and error in relation to these benefits, based on the work completed by SAU. The table shows that total benefits (other than State Pension) amounted to £3.46 billion with estimated over and under

Section Three: Resource Accounts

benefit payments totalling £82.9 million (on which I have qualified my audit opinion) comprising:

- overpayments of £67.6 million; and
- underpayments due to official error of £15.3 million.

3.1.14 All overpayments are irregular, whereas only underpayments made as a result

of official error are deemed irregular. Underpayments due to customer error are not deemed irregular.

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

Figure 8: Estimated Overpayments and Underpayments due to fraud and error in benefit expenditure (2012)⁴ (Note 36 to the financial statements)

	Benefits (other than State Pension)	State Pension	Total
	£ million	£ million	£ million
Expenditure	3,455.7	1,878.8	5,334.5
Overpayments due to:			
Customer fraud	26.9	0	26.9
Customer error	19.5	0	19.5
Official error	21.2	1.1	22.3
Total Overpayments	67.6	1.1	68.7
Underpayments⁵ due to Official Error	15.3	2.7	18.0

Source: Department for Social Development financial statements

Estimated levels of fraud and error

3.1.16 The Payment Accuracy Note (Note 36 to the financial statements) divides over and underpayments into the following categories:

- Fraud in benefit awards arise when customers deliberately seek to mislead DSD to claim money to which they are not entitled; and

⁴ Estimates are to the nearest £0.1 million and within 95 per cent confidence intervals.

⁵ Underpayments exclude those due to customer error (estimated to be £6.5 million) which are not part of the audit qualification.

- Error in benefit awards which can arise because of customer error or official error:
 - Customer error occurs when customers make inadvertent mistakes with no fraudulent intent; and
 - Official error arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by DSD.

Figure 9 shows the trends since 2008 in estimated levels of fraud and error due to each of these.

3.1.17 There was some difference in performance in the levels of estimated overpayments and underpayments due to fraud and error over the various bodies administering the benefits:

- In the Social Security Agency, which administers about 88 per cent of the total benefit expenditure, I was pleased to note that the total estimated overpayments and underpayments due to fraud and error remained at an historically low level of 1.2 per cent;
- In the Housing Executive, which administers 11 per cent of total benefit expenditure the estimated level of fraud and error increased from 2.4 per cent to 4.2 per cent. Some of the reasons for this increase are discussed below; and

- In Land & Property Services, which administers about 1 per cent of total benefit expenditure the estimated level of fraud and error has increased from 11.8 per cent to 14.9 per cent.

3.1.18 From an overall DSD point of view the estimated levels of overpayments and underpayments due to fraud and error this year are 1.6 per cent. This is lower than the same figure in the Department for Work and Pensions (DWP) of 2.0 per cent for the year to 31 March 2012. I was, however, disappointed that the overall estimated fraud and error levels have increased from 2011 when they were 1.4 per cent.

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Figure 9: Trends in total estimated fraud and error in benefit expenditure

	2008 £ million	2009 £ million	2010 £ million	2011 £ million	2012 £ million
Total benefit expenditure	4,256.7	4,714.9	4,959.0	5,054.9	5,334.5
Overpayments					
Customer fraud	15.7	22.2	22.1	22.7	26.9
Customer error	21.7	15.2	12.4	14.8	19.5
Official error	19.8	21.1	32.4	16.9	21.2
TOTAL	57.2	58.5	66.9	54.4	67.6
% of benefit expenditure	1.3%	1.3%	1.4%	1.1%	1.3%
Underpayments⁶					
Official error	17.6	19.8	17.7	17.9	15.3
% of benefit expenditure	0.4%	0.4%	0.4%	0.3%	0.3%

Source: Department for Social Development financial statements 2008-09 to 2012-13

Customer fraud

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

- customer's living arrangements where the customer has a partner but is claiming and receiving benefit as a single person;
- undeclared and under-declared occupational pensions;
- falsely stating the level of their own or partner's earnings;
- customers not disclosing they are living abroad;
- customers working but claiming unemployment benefits; and
- under-declaration of assets.

⁶ Underpayments exclude those due to customer error (estimated to be £6.5 million) which are not part of the audit qualification.

3.1.20 I note that the estimated level of fraud is now at an historically high level, having increased significantly from £22.7 million in 2011 to £26.9 million in 2012. The main reason for this increase is due to an increase in customer fraud in Housing Benefit (administered by the Housing Executive) of £6.5 million and I asked DSD to comment on what steps it was taking to address this increase.

3.1.21 DSD told me that the significant rise in the level of customer fraud was of considerable concern. The Northern Ireland Housing Executive is currently carrying out an analysis of the fraud and error findings. The one notable factor in the year's work was the impact of Automatic Transfer to Local Authority System (ATLAS), which is an information feed from DWP providing information regarding changes in benefit awarded to customers. The introduction of ATLAS resulted in a considerable increase in the workload of the Housing Benefit section. Introduced in February 2012, ATLAS has resulted in over two million additional assessment activities during 2012-13 impacting on over 500,000 cases. With a caseload of 165,000 it is obvious that cases are being impacted on numerous occasions during the year. The situation was exacerbated by the fact that ATLAS notifications suspended benefit claims. Therefore the notifications had to be cleared as a top priority.

3.1.22 It was not until September 2012 that the NIHE was able to arrange for some enhancements to the system

that enabled approximately 80 per cent of ATLAS activity to be processed automatically. In order to cope with this additional workload, the Housing Executive increased the assessment resources and suspended some other less urgent activities, one of which was the annual intervention exercise to gather earnings information from claimants. The intervention exercise has since been reinstated for the current year.

3.1.23 The increased workload had already impacted all the Housing Benefit operational targets such as new claims processing, change of circumstances etc. However, by year end, NIHE had managed to get the performance in these areas back within normal parameters. I consider that the significantly increased work load has had a similar impact on payment accuracy and I will be closely monitoring performance during 2013-14 for evidence of improvement.

Customer error

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

- the benefits system is complex for customers to navigate;

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

3.1.25 I am concerned by the increase in overpayments due to customer error from £14.8 million in 2011 to £19.5 million in 2012. The increase is mainly due to an increase in customer error in State Pension Credit of £4 million and I asked DSD for its comments. DSD told me the findings from 2012 highlight an increase in the customer error overpayment level within the State Pension Credit benefit. This was primarily due to the non declaration, or inaccurate declaration, of occupational pensions, capital, and customers receiving other forms of income. The findings from the 2012 benefit review results will steer SSA's priorities in tackling customer fraud and error, with particular focus being placed by the new Single Investigation Service on the emerging difficulties associated with State Pension Credit customer error.

Official error

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

3.1.27 The main reasons for official errors are:

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

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

3.1.28 I note the significant increase in official error overpayments from £16.9 million in 2011 to £21.2 million in 2012. The increase is mainly due to an increase in official error in Housing Benefit (administered by the Housing Executive)

of £4.2 million and an increase in Housing Benefit owner occupiers (administered by Land & Property Services) of £1.6 million. I asked DSD to comment on the increases in both benefits.

3.1.29 DSD told me that the main reason for the downturn in performance for both Northern Ireland Housing Executive and Land & Property Services in administering Housing Benefit would have been as a result of the impact of the introduction of ATLAS at the start of the year. The impact of the significant increase in the Housing Benefit workload has already been detailed in DSD's response at **paragraph 3.1.21 to 3.1.23**. Formerly, if SAU found that tax credits were not up to date, this would have been considered as customer error. Since ATLAS, if tax credits are not up to date it is considered official error. Consequently, ATLAS has had a double impact on Land & Property Services Housing Benefit, increasing both the volume of work and level of official error. Land & Property Services has taken a number of steps to improve levels of accuracy in Housing Benefit:

- Housing Benefit training has been reviewed and updated;
- 27 additional staff have been recruited and trained;
- A dedicated Quality Assurance team has been established to improve consistency of quality assurance;

- A new Quality Assurance database and reporting suite has been developed to improve the quality of management information available, to better identify training issues etc.;
- A dedicated team has been established to systematically review the Housing Benefit caseload using a risk-based approach; and
- A new team has been established to deal with high-risk self employed income claims.

3.1.30 Housing Benefit fraud and error is monitored at a senior level at the Land & Property Services Audit and Risk Committee. DSD will also continue to closely monitor performance during 2013-14 for evidence of improved performance.

Other Matters

Housing Associations

3.1.31 DSD provides funding via the NIHE to the Housing Association sector each year and this amounted to £81.2 million during 2012-13. In order to satisfy itself that this money is properly spent, DSD's Governance and Inspection Team conducts regular inspections of all Housing Associations in Northern Ireland examining governance, finance, housing management, property management and property development.

3.1.32 In recent years I have raised a number of concerns in relation to Housing

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Associations and I have reported extensively in this area, making a number of recommendations.

Inspections

- 3.1.33 During the year the Governance and Inspection Team carried out inspections of sixteen Housing Associations and I am encouraged by the fact that thirteen of the Housing Associations inspected received either satisfactory or substantial assurance. This is a significant improvement on the results achieved last year when only eight out of the fifteen Associations examined achieved satisfactory or substantial assurance.
- 3.1.34 Two Housing Associations (SHAC and Rural) received limited assurance and South Ulster received no assurance. The main concerns in SHAC surrounded the financial viability of the organisation and the overall condition of their housing stock. Following the investigation SHAC has now merged with Oaklee Housing Association.
- 3.1.35 In respect of Rural Housing Association, the Governance and Inspection Team gave limited assurance as it had concerns over the Association's ability and capacity to undertake and deliver a comprehensive maintenance function. The Governance and Inspection Team also concluded that it should continue to be suspended from any new development activity until it had fully established and documented its approach to development and ensured
- that it had adequate resources to carry out this work.
- 3.1.36 With regard to South Ulster, the Governance and Inspection Team identified significant areas of weakness and non-compliance with the Housing Association Guide across all areas of activity. These issues resulted in recovery of Housing Association Grant of £110,000 from four development schemes. The Governance and Inspection Team concluded that whilst the Association produced a high quality build, there was little understanding of the requirements of the Guide and little demonstrable evidence of value for money. As a result of these findings, board members have been replaced, the senior management team has changed and the Association has been suspended from the Development Programme.
- 3.1.37 I also note that a recent draft report from the Governance and Inspection Team shows that there are significant concerns about the financial viability of Craigowen Housing Association (an Association which has not developed for a number of years), its governance arrangements and the condition of its housing stock which was found to have deteriorated in recent years. DSD is currently considering how it can best work with the Association to resolve this situation.
- 3.1.38 While the number of bodies being inspected and found to be satisfactory by the Governance and Inspection Team is encouraging, I remain concerned

that some Housing Associations are still performing poorly despite the work of the Team over several years promoting good practice. In particular I noted that the performance of South Ulster Housing Association has worsened significantly since it was last examined in 2009 when it received satisfactory assurance. I asked DSD for its comments in relation to the poorly performing Housing Associations above and how it might identify when standards at an Association are falling at an earlier stage.

3.1.39 DSD told me that it shared my concerns with the performance of South Ulster and Craigowen Associations. However, as noted above, significant changes have taken place within the South Ulster Housing Association as a result of the inspection findings. The Board has taken prompt and decisive action to address the weaknesses. The Association will be subject to a follow-up inspection in September 2013 to ascertain the degree of progress that has been made in implementing the recommendations. The inspection of Craigowen is at a much earlier stage. However, it is clear that significant issues will have to be addressed by the management board. DSD is committed to working with all parties to achieve an acceptable resolution. The two limited assurance inspections referred to in the report (SHAC and Rural) were follow-up inspections and in both cases the Governance and Inspection Team identified an acceptable level of progress in addressing previous

inspection findings. DSD considers that as the Round 2 inspection programme comes to a conclusion, the most problematic associations have been identified and appropriate recovery action is being taken. The improvement during 2012-13, which has already been identified in this report, is a reflection of the enhanced inspection and monitoring processes which have been established by DSD.

Suspended Housing Associations

3.1.40 I previously reported that nine Housing Associations were suspended from carrying out development work. Following further inspection, four of these suspended Housing Associations (including Helm) are being allowed to return to the development programme on a phased return basis over the next year. A further two Housing Associations are in the process of merger or partnership arrangements with larger Housing Associations, three of the Associations remain suspended from last year and one additional Association (South Ulster) has been suspended from development in the current year.

3.1.41 In relation to Helm Housing Association, I qualified my audit opinions on both DSD's and NIHE's financial statements in 2010-11 because of concerns as to the regularity of grant expenditure in Helm. This followed the identification of serious issues in the Association which were identified by the Governance and Inspection Team. The report on Helm

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was finalised in January 2012 with a 'no assurance' rating and 49 high priority recommendations across a range of issues.

- 3.1.42 The Governance and Inspection Team has carried out a further follow up inspection on Helm during the period September to December 2012 to review progress made and noted that 40 recommendations have been fully implemented with good progress made in the remainder. All the previous Board Members and entire senior management team, including the Chief Executive have been replaced. The new Board and senior management team are now progressing a comprehensive action plan that will implement all the recommendations made. The Governance and Inspection Team has now concluded that Helm should be considered for a phased return to the Development Programme to build new houses during 2013-14.

Land Purchases by Housing Associations

- 3.1.43 Last year I reported on four grants that had been made by DSD under the Advance Land Purchase (ALP) scheme. This scheme allows grants to be made to Housing Associations in order for them to purchase a site in an area which has a social housing need but which may not yet have planning permission. The ALP grant is given on the understanding that DSD can seek full recovery if planning permission is not granted or progress has not been made in building houses on the land within three years of the award of the grant. In two of the cases DSD has assured me there is still potential for the schemes to go ahead and they are therefore not seeking recovery of the grants at this stage. In the other two schemes DSD has now indicated that because of the time taken to progress towards building the houses it is minded to seek recovery.
- 3.1.44 One of the schemes on which the grant may now be recoverable relates to the purchase of a site by Helm in Great George's Street, Belfast supported by £8.1 million of Housing Association Grant under DSD's ALP arrangements. I reported my concerns on this last year. I noted that when Helm had purchased the site in 2007 for £9.75 million, a third party had purchased the site for £6.5 million from the vendor on the same day before immediately selling it on to Helm. Despite detailed investigations, DSD was unable to obtain any explanation for these transactions. Last year, DSD had thought that planning permission might still be achieved for this site, but it has now become clear that this will not happen until 2018 at the earliest. Consequently, DSD has indicated that it is minded to begin recovery procedures for the ALP grant of £8.1 million.
- 3.1.45 The other scheme relates to one planned by Trinity Housing Association (for a development in Crossgar). In this scheme DSD awarded an ALP grant of £835,000 to the Association in February 2008 to purchase the site

on the basis that 12 social housing units would be developed. In the intervening period, as the Association pursued unsuccessful planning approvals to develop the site, the proposal has changed from a 12 unit scheme to a 3 unit scheme and currently to a single detached bungalow. DSD have now indicated that they are minded to begin recovery procedures for the ALP grant of £835,000, although the Association has indicated that it is likely to take legal action to prevent recovery.

3.1.46 Between these two schemes DSD has paid almost £9 million to two Associations to support two land purchases. Both schemes received grants more than five years ago without any progress being made to build social housing. In both cases the sites are now worth considerably less than the Associations paid for them. I consider that it is important that these grants are recovered as soon as possible.

3.1.47 It should be an important principle when making these grants that the development risk remains with the Association so that any losses from changes in land values or planning permission not being forthcoming do not have to be met from public funds. Therefore I am disappointed that there has been legal challenge to the possible requests for repayment. I asked DSD if it considers that there is any possibility of a loss to public funds in these cases. I also asked DSD what action it has taken to ensure future ALP grants are subject to less risk.

3.1.48 DSD told me that the advance purchase of development sites by Housing Associations for social housing plays a key role in ensuring delivery of the Social Housing Development Programme each year. In the period 2007-08 to 2012-13, grant funding has been provided to Housing Associations to secure the purchase of 53 sites. This has facilitated starts on 1,301 homes. The two schemes referred to in this report have been affected by unique and exceptional issues which have delayed their development. However, the Housing Executive has now written to both Associations indicating its intention to initiate the grant recovery process. In addition, the Housing Association Guide has been amended to confirm that if a scheme does not progress within two years, or three years in exceptional circumstances which have been approved by the Housing Executive, then the full grant must be repaid with interest. DSD is satisfied that these amendments provide the necessary assurances around the likelihood of development of sites by Housing Associations and also protect the public purse, as all monies paid will be recovered in the event that a scheme does not progress. DSD is also satisfied that the two outstanding grants to Helm and Trinity Housing Associations are unique and exceptional and that potential recovery action has been initiated at an appropriate time by the Housing Executive.

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Ministerial Directions

3.1.49 My predecessor informed the Public Accounts Committee (PAC) on 1 July 2009 of two Ministerial Directions he had been made aware of by the then Accounting Officer of DSD and promised to report to the Committee at an appropriate stage. Both Ministerial Directions related to continued funding for Ligoniel Improvement Association and Lower North Belfast Community Council. A number of investigations were carried out in relation to both organisations and these have recently been finalised. Therefore, I am now in a position to conclude on this matter.

Ligoniel Improvement Association

3.1.50 DSD funded Ligoniel Improvement Association to provide a range of local services in the Ligoniel Village Neighbourhood Renewal area by way of an annual contract, totalling approximately £150,000 to cover salary and running costs, which was due to expire on 31 August 2008. A whistleblower informed the Police Service of Northern Ireland (PSNI) of a potential misappropriation of funds involving the Managing Director and the PSNI contacted DSD. DSD along with the PSNI then investigated the management of finances at the Association. The Accounting Officer decided to withdraw funding at 31 July 2008 pending the outcome of the investigation.

3.1.51 The then Minister gave a direction in January 2009 to DSD to continue to fund the Association on a month by month basis up to 31 March 2011, which was expected to be a further £392,733. DSD introduced specific enhanced monitoring and control arrangements at that stage, including 100 per cent vouching of all requests before making payment and continued to fund the Association. DSD has had no issues in relation to this Association since the Ministerial Direction and continues to fund the organisation. The PSNI investigation has now concluded without any prosecution.

Lower North Belfast Community Council

3.1.52 DSD also funded Lower North Belfast Community Council to provide a range of local services in the Inner North Belfast Neighbourhood renewal area to cover salary costs. DSD withdrew funding at 31 August 2008 following a quality assurance review that identified serious irregularities in relation to financial management and governance practices within the organisation.

3.1.53 The then Minister issued a direction on 31 March 2009 to continue to provide funding up to £106,000 on an annual basis. Additional claims for funding these salary costs, which are inherently of a lower risk than other costs, were subsequently submitted by the organisation. However, these claims could not be vouched to supporting documentation and no further payments

were made by DSD. Following a review of the organisation by DSD's Corporate Investigation Unit in April 2009, the Accounting Officer decided not to continue this funding.

- 3.1.54 I asked DSD how it has changed its procedures in order to ensure that it could risk assess its payments so that any potential similar problems were identified at the earliest opportunity. DSD told me that it takes the potential for fraud seriously. It has a Fraud Policy and Fraud Response Plan in place which are reviewed regularly. In respect of grants to the voluntary and community sector, specific guidance includes a Fraud Risk Process Map which identifies potential risks, the type of fraud, the likelihood of occurrence and controls to prevent or detect it. Monitoring checks are carried out to ensure that agreed outputs/ outcomes in contracts are delivered. A risk based approach to making payment (the Financial Systems and Controls Assessment) is in place. This was enhanced in 2010 to ensure that when establishing a rating for any particular group that in addition to discussions with the administrative staff, representatives of the management committee are also present to verify, among other things, that controls to prevent and detect fraud are in place and appropriate financial controls are being applied. In addition a number of bulletins have been issued to staff, for example, advising of the need to be vigilant about potential fake invoices and to obtain and validate the appropriateness of a sample of cheques used by each group. The need for fraud

awareness features regularly at meetings and a series of seminars highlighting lessons learned from recent investigations has been undertaken.

Conclusion

- 3.1.55 I consider that the estimated levels of fraud and error reported are material and I have therefore qualified my opinion on the 2012-13 DSD Resource Accounts on the regularity of benefit expenditure (other than State Pension benefits).
- 3.1.56 I am encouraged with the general progress made in the Housing Association sector following the lessons learnt from DSD's report on Helm in 2012. I will however continue to closely monitor this area.
- 3.1.57 I am content that the issues identified in both Ministerial Directions have been concluded.

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3.2 Department of Agriculture and Rural Development Resource Accounts 2012-13

Introduction

3.2.1 This report explains:

- the background to the disallowances on European Union (EU) Funding imposed on the Department of Agriculture and Rural Development (DARD);
- the basis of my qualified audit opinion on the 2012-13 Resource Accounts for DARD; and
- the actions DARD is taking to reduce the disallowances determined by the EU Commission (the Commission).

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

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

Background to the disallowances imposed on DARD

3.2.4 Northern Ireland continues to benefit from support through the European Agricultural Funds. The Northern Ireland farming community benefited from Common Agricultural Policy subsidies by the EU to the value of £285 million in 2012-13 (£315 million 2011-12).

3.2.5 As a consequence of audits carried out by the EU Commission and the EU Court of Auditors, the Commission proposed disallowances for Single Farm Payment (SFP) scheme years 2004 to 2008 which gave rise to a liability of approximately €72 million (£61.217 million) due to be paid to the Commission.

3.2.6 In 2010, DARD agreed with the Commission that it would carry out a risk assessment to calculate the potential disallowances for 2009 SFP scheme year. DARD submitted its calculations of the risk to the fund to the Commission. In February 2012 the Commission agreed DARD's risk assessment and estimate of the potential disallowances for the 2009 scheme year which resulted in a liability of €15.73 million (£13.3 million). DARD has completed similar risk assessments for the 2010 and 2011 scheme years and has included a further £17.4 million as the potential liability for these scheme years. Note 22 to the financial statements indicates the uncertainties in respect of the estimated liabilities included for the 2010 and 2011

scheme years. I strongly encourage DARD to continue to progress the agreement of any potential disallowance amounts relating to previous scheme years.

Basis of my qualified audit opinion for the year 2012-13

3.2.7 **Figure 10** provides a summary of the EU Common Agricultural Policy Disallowances imposed on DARD.

Figure 10: Summary of EU Common Agricultural Policy Disallowances

Single Farm Payment Disallowance	£ Million
Scheme Years 2004-2007	33.0
Scheme Years 2007-2008	30.8
Scheme Year 2009	18.4
Scheme Year 2010	11.1
Scheme Year 2011	8.7 ³
Subtotal	102.0¹
Ovine / Bovine premia scheme 2003-2004	1.0
Rural Development Programme	1.0
Cross Compliance 2007-2009 scheme years	3.4 ^{3,4}
Disallowance Accrued	107.4
Estimate Adjustments	(7.3) ^{2,3}
Revised Disallowance Accrual	100.1
Payments Made	(63.9)
Disallowance amounts outstanding for payment at 31/03/13	36.2

Footnotes

- 1 The largest part of the disallowances above relate to the Single Farm Payment scheme and to the scheme years indicated in Figure 8. However due to the timing of notifications from the EU Commission each of the amounts above includes a smaller part from other scheme years and from other EU funding schemes.
- 2 The amounts due to the EU Commission for each scheme year are often updated. This is due to changes in the exchange rates and updated notifications from the EU Commission based on the progress of its reviews on each scheme year. This includes £0.3million reduction in respect of adjustments notified during the 2012-13 year.
- 3 The cost included by DARD in its 2012-13 accounts is £8.7 million SFP and £3.4 million Cross Compliance less £0.3 million adjustments, equating to £11.8 million in total.
- 4 Cross compliance correction of £3.4m was made in 2012-13 in respect of the 2007, 2008 and 2009 scheme years.

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3.2.8 My audit opinion for 2012-13 is qualified in respect of two potential disallowances (i) Single Farm Payment £8.65 million and (ii) Cross Compliance Costs of £3.36 million, totalling £12.01 million. DARD has included these amounts due to be paid to the EU Commission within the 2012-13 DARD Resource Accounts.

Single Farm Payment disallowances

3.2.9 DARD has included an amount of £8.65 million as an estimate of the potential liability in respect of SFP disallowances for Scheme Year 2011. This amount represents 3 per cent of the total amount of Single Farm Payments made in 2011.

3.2.10 For Scheme Year 2012 the impact of DARD's actions to reduce disallowances has yet to be fully assessed by the EU Commission. Therefore it would be premature to include any amounts due in the Resource Accounts. However DARD has disclosed a contingent liability and a range of possible disallowances at Note 26 to the financial statements. If there is a material amount due to be paid to the Commission in future years this may lead to further qualifications of those years' accounts.

Cross Compliance disallowances

3.2.11 DARD has included an amount due to the Commission of £3.36 million in respect of EU disallowances as a liability in these accounts. This is in relation to

the Commission's recently proposed disallowance of €3.986 million for cross compliance issues identified during a 2009 audit.

DARD's Action to reduce disallowances

3.2.12 I asked DARD to explain the key steps it is taking to minimise the possibility of future disallowances. DARD told me it has pursued a broad range of measures to address the issues raised by the Commission. These include:

- Working in partnership with Land & Property Services (LPS), an agency of DFP, to revise all farm maps. This involves the systematic review and, where necessary, the correction of 742,000 fields currently used to claim SFP and other area aids schemes. In support of the 2012 Single Application period, DARD issued revised maps and field information tables, which showed a Visible Eligible Area for each field mapped, to all farm businesses;
- Investing in a new Corporate Geographical Information System that will underpin the maps and ensure that DARD has a better platform on which to build future maps;
- Continuing to improve inspection controls through enhanced training and guidance to inspectors and further refinement of the electronic

systems to provide a more consistent and repeatable control. In addition, quality assurance measures have been integrated into inspection activities to maintain and improve the accuracy and quality of the process;

- Introducing Remote Sensing technology as a means to complete on-the-spot checks. This approach, which uses satellite imagery to check claimed areas, will also help ensure increased consistency and standardisation of the on-the-spot checks; and
- Participating in a voluntary Legality and Regularity audit in line with Commission guidelines.

3.2.13 DARD has set out full details of its programme of measures in the annual report.

Summary and Conclusions

3.2.14 I have qualified my audit opinion on DARD's 2012-13 Resource Accounts on the grounds of regularity. During the 2012-13 financial year, DARD included a further £12.01 million as amounts due to be paid to the EU in respect of disallowances. This amount due has been included in DARD's Resource Accounts to make good the shortfall in EU Funding and, therefore, represents a loss to public funds which falls outside the Assembly's intentions in relation to the proper administration of EU funding. I have therefore concluded that

expenditure has not been applied for the purposes intended by the Assembly and is not in conformity with the authorities which govern it.

3.3 Department of Education Resource Account 2012-13

Introduction

3.3.1 The Department for Education (DE) is responsible for promotion of education and implementation of education policy in Northern Ireland as well as being the sponsoring department for 13 Non-Departmental Public Bodies. In 2012-13 DE spent approximately £2 billion.

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

3.3.3 Last year I qualified my regularity audit opinion on DE's accounts in respect of three separate pay award issues that had arisen because the required DFP approval had not been given or sought. Two of these issues have since been addressed. However the third issue regarding the need to submit pay remits for non-teaching staff in Voluntary

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Grammar Schools (VGS) and Grant Maintained Integrated Schools (GMIS) to DFP for approval is ongoing but has not yet been fully resolved. Consequently my regularity opinion on DE's accounts for 2012-13 remains qualified in this regard.

3.3.4 More detail is provided on this issue below. I also comment on another issue where expenditure approval processes were not fully complied with, but on which I have not qualified my audit opinion because I do not consider the amount involved to be material to my opinion.

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

3.3.5 I noted in my report last year that in 2006-07 VGS and GMIS were re-classified as public sector bodies and should have been required to follow the DFP public sector pay remit approval process from that date. This issue was first identified last year and since then DE has been gathering information to allow it to prepare pay remits for VGS/GMIS non-teaching staff. DE told me that this has not yet been completed because of the difficulties in gathering information from a large number of schools in respect of staff who are on a range of pay scales. During 2012-13 it commenced a process for agreeing a pay remit for non-teaching staff in each of the schools and has now established

a dedicated team to deal with pay remit and policy issues. DE hopes to have pay remits approved for a significant majority of the VGS/GMIS non-teaching staff before the end of the 2013-14 financial year.

3.3.6 DE estimates that increments paid to non-teaching staff in 2012-13 have been in the region of £14 million. These payments do not have the required approval from DE or DFP and are not in accordance with rules governing public sector pay so that the amount of £14 million paid during 2012-13 is irregular.

Other issue

3.3.7 I also noted that DE has not given its approval for increased expenditure incurred by North Eastern Education & Library Board in relation to the new build of Magherafelt High School. These costs are above the limit approved by DE and the Accounting Officer has stated that a formal investigation is being commissioned into aspects of the management and delivery of the Magherafelt High School contract and that this will also consider the propriety and regularity of the increased costs. I will keep this issue under review and consider any impact on my regularity opinion on the accounts of the North Eastern Education & Library Board for 2012-13.

Conclusion

- 3.3.8 I acknowledge that DE's Internal Audit team has been carrying out significant work in the area of pay remits and has made a number of recommendations to address the underlying control weaknesses which have led to pay awards not being properly approved for a number of years. The issue regarding the regularisation of payments to non-teaching staff in VGS and GMIS must be progressed as a matter of priority and I will review this again in my 2013-14 audit.
- 3.3.9 I have qualified my opinion on regularity due to irregular expenditure of £14 million on payments to non-teaching staff in VGS and GMIS which do not have the appropriate approvals.
- 3.3.10 I welcome the disclosure of these matters in the Accounting Officer's Governance Statement and the action ongoing to ensure that robust and effective arrangements are put in place so that such situations do not recur.

3.4 Department of Culture, Arts and Leisure 2012-13

Introduction

- 3.4.1 I have qualified my audit opinion on the Department of Culture, Arts and Leisure (DCAL) accounts for 2012-13 in respect of the legal ownership of certain tangible and intangible assets.

Tangible assets

- 3.4.2 Since 2008-09 I reported that, on its formation on 1 December 1999, DCAL took various assets onto its non-current asset register which had previously been held in the registers of other departments. Given the nature of some of these assets, legal ownership had not been formally established in all cases. DCAL has advised me it is also possible that it may have taken on ownership of assets following the transfer, details of which are not recorded in its register. This situation continues to exist in 2012-13.
- 3.4.3 DCAL has previously advised me it had sought to quantify the deficit in legal ownership and resolve this as appropriate. DCAL had indicated that this may be an extended process but that it would be addressed expeditiously with priority given to establishing legal ownership to land on which DCAL had buildings or other structures.
- 3.4.4 In 2008-09, DCAL had received a report from consultants who were engaged to establish rights to claim legal ownership to all property assets under the responsibility of Inland Waterways and Inland Fisheries. This work noted that DCAL was unable to provide evidence of legal ownership for certain land and buildings currently included in its financial statements. The report also identified other assets including land, locks, bridges, and weirs which DCAL may own, but which are not included within property, plant and equipment. I note:

Section Three: Resource Accounts

- the financial statements include non-current assets with a carrying amount of £31,978,000 at 31 March 2013. Included in this amount are land and buildings with a carrying amount of £30,181,000 of which DCAL cannot prove legal ownership for £3,957,000 (2011-12: £2,849,000); and
- approximately 50 assets have been identified at 31 March 2013 which may belong to DCAL, but which are not included in property, plant and equipment (unchanged from the position at 31 March 2012). The value of these assets is unknown.

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

3.4.6 DCAL is continuing its efforts to resolve the issue of legal ownership of these assets and progress is being made. However, it is disappointing that DCAL's

action has in 2012-13 had no impact on the number of assets of doubtful title or uncertain ownership.

Intangible Assets

3.4.7 Since my 2009-10 audit I have noted that DCAL cannot provide evidence of ownership for certain sporting and fishing rights. DCAL has advised me that its investigation into the status of sporting and fishing rights has allowed it to confirm ownership for a number of these assets. The assets for which ownership remains to be established have a value of £290,000 at 31 March 2013 (2011-12: £281,000). DCAL's investigation has also identified a further nine (unchanged from the position at 31 March 2012) sporting and fishing rights which may belong to it but which are not currently included in intangible assets. The value of these assets is unknown.

3.4.8 I acknowledge the progress that DCAL is making towards establishing ownership of sporting and fishing rights. However, as with the tangible assets noted above, it is disappointing that DCAL's action has in 2012-13 had no impact on the number of assets of doubtful title or uncertain ownership.

Conclusion

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

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

Office of the First Minister and Deputy First Minister 2012-13

- 3.5.1 My audit of the Office of the First Minister and deputy First Minister's (OFMDFM) accounts in 2011-12 identified two issues on which I qualified my audit opinion on regularity. I have provided an update on these issues below.

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

- 3.5.2 The original approval for this project by DFP was rescinded because the amount of the contract entered into by OFMDFM was significantly different from the original amount approved by DFP. The resulting expenditure was deemed to be irregular (2011-12, £1,566,090; 2010-11, £3,000,027). As the project was completed in the 2011-12 financial year, no further expenditure has been incurred by OFMDFM on this project in 2012-13. I have therefore removed my qualification in this regard.

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

- 3.5.3 The required approval was not requested from DFP for changes to the parade ground and car park component of this project, therefore DFP approval for all expenditure on the parade ground and car park was withdrawn and thus deemed to be irregular. In 2012-13, the irregular expenditure amounts to £369,066 (2011-12, £4,593,260; 2010-11, £3,427,583). As the amount of irregular expenditure incurred in 2012-13 is not considered to be material, I have decided not to qualify my audit opinion on regularity regarding this issue.

Section Four: Executive Agencies



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4.1 Social Security Agency 2012-13

Introduction

- 4.1.1 The Social Security Agency (SSA) is an Executive Agency within the Department for Social Development, which in 2012-13 was responsible for the payment of £4.7 billion in benefits.
- 4.1.2 This report reviews the results of my audit of SSA's 2012-13 financial statements and sets out why I have decided to qualify my audit opinion on the regularity of benefit expenditure, other than State Pension. It is important to note that my audit opinion has been qualified for a considerable number of years because of this issue.
- 4.1.3 I have decided to qualify my audit opinion on the regularity of benefit expenditure, other than State Pension, because the level of estimated fraud and error continues to be at a significant level. Nevertheless I was pleased to note that the overall estimated level of overpayments due to fraud and error continues to be at an historically low level of 0.9 per cent of benefit expenditure. This compares favourably with the estimate in the Department of Work and Pensions in Great Britain of 1.6 per cent⁸ and is a major reduction on eight years ago when overpayments due to fraud and error were estimated at 2.3 per cent of benefit expenditure.
- 4.1.4 I have not qualified my audit opinion on the regularity of State Pension payments

because they have been estimated to have a low incidence of error and no reported customer fraud.

- 4.1.5 My report below gives more detail on how SSA estimates fraud and error, the detailed levels of fraud and error and also provides an update on a number of issues I reported on last year.

SSA arrangements for monitoring and reporting fraud and error

- 4.1.6 SSA's Standards Assurance Unit (SAU) regularly monitors and provides estimates of levels of fraud and error within the benefit system. In order to do this, statisticians from DSD Analytical Services Unit randomly select samples of ongoing benefit claims and SAU subject them to detailed examination for evidence of customer fraud, customer error or official error.
- 4.1.7 The results of this testing are then used to produce a range of likely fraud and error for all of the main benefits (within 95 per cent confidence intervals) and the midpoint of this range is presented in Note 26 (entitled 'Payment Accuracy') to the financial statements as an estimate of the monetary value of the fraud and error in the year. Note 26 explains that the estimates of fraud and error are by their nature subject to uncertainty because they are based on sample testing. These estimates do, however, represent the best measure of fraud and error available.

8 The level of error for DWP relates to figures for 2011-12 for benefits administered by it which are comparable to those administered by the Agency.

4.1.8 In order to facilitate the timetable for the production of the financial statements, SSA's testing on payment accuracy is reported on a calendar year basis, not on a financial year basis. I am satisfied that this approach is reasonable.

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

Qualified opinion due to fraud and error in benefit payments

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

4.1.11 The criteria that are used to determine entitlement to each benefit and the method to be used to calculate the amount due to be paid are set out in legislation. Where fraud or error has

resulted in an over or underpayment of benefit to an individual who is either not entitled to that benefit or is paid at a rate which differs from that specified in the legislation, these payments made are not in conformity with the governing legislation and are therefore irregular.

4.1.12 However, my regularity opinion is not qualified in respect of State Pension payments because the testing carried out by SAU found no fraud within State Pension payments and the estimated level of error within State Pension is not significant (**Figure 11**).

4.1.13 **Figure 11** below shows the total benefit payments made during the calendar year of 2012 and the estimated level of fraud and error in relation to these benefits, based on the work completed by SAU. The table shows that total benefits (other than State Pension) amounted to £2.8 billion with estimated over and under benefit payments totalling £51.7 million (on which I have qualified my audit opinion) comprising:

- overpayments of £41.6 million (1.48 per cent of total benefits excluding State Pension); and
- underpayments due to official error of £10.1 million (0.36 per cent of total benefits excluding State Pension).

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

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4.1.15 I consider the estimated levels of fraud and error in benefit expenditure to be material and I have therefore qualified

my audit opinion on the regularity of benefit expenditure (other than in relation to State Pension).

Figure 11: Estimated Overpayments and Underpayments due to fraud and error in benefit expenditure (2012)⁹ (Note 26 to the financial statements)

	Benefits (other than State Pension) £million	State Pension £million	Total £million
Expenditure	2,802.5	1,878.7	4,681.2
Overpayments due to:			
Customer fraud	16.9	0	16.9
Customer error	13.1	0	13.1
Official error	11.6	1.1	12.7
Sub-total	41.6	1.1	42.7
Underpayments¹⁰ due to:			
Official error	10.1	2.7	12.8

Estimated levels of fraud and error

4.1.16 The Payment Accuracy Note (Note 26) divides over and underpayments into the following categories:

- fraud in benefit awards arise when customers deliberately seek to mislead SSA to claim money to which they are not entitled;
- error in benefit awards which can arise because of customer error or official error;

- customer error occurs when customers make inadvertent mistakes with no fraudulent intent; and
- official error arises when a benefit is paid incorrectly due to inaction, delay or a mistaken assessment by SSA.

4.1.17 **Figure 12** shows the trends since 2008 in estimated levels of fraud and error due to each of these categories.

⁹ Estimates are to the nearest £0.1 million and presented with 95 per cent confidence intervals.

¹⁰ Underpayments exclude those due to customer error which do not form part of the audit qualification. In 2012, these underpayments are estimated to be £4.3 million (2011 - £5.9 million).

Figure 12: Trends in total estimated fraud and error in benefit expenditure

	2008 £ million	2009 £ million	2010 £ million	2011 £ million	2012 £ million
Total benefit expenditure	3,788.8	4,176.4	4,352.1	4,456.4	4,681.2
Overpayments					
Customer fraud	12.6	17.2	20.5	19.4	16.9
Customer error	13.4	12.9	6.5	7.3	13.1
Official error	18.4	16.7	21.2	13.2	12.7
TOTAL	44.4	46.8	48.2	39.9	42.7
% of benefit expenditure	1.2%	1.1%	1.1%	0.9%	0.9%
Underpayments¹¹					
Official error	17.6	19.8	17.7	17.9	15.3
% of benefit expenditure	0.4%	0.4%	0.4%	0.3%	0.3%

Source: Social Security Agency financial statements 2008-09 to 2012-13

4.1.18 Total overpayments due to fraud and error are estimated to be 0.9 per cent of total benefits in 2012. This is below 1 per cent for the second year running. In addition, underpayments due to official error have remained at 0.3 per cent. I note the progress that continues to be made over recent years in reducing the levels of fraud and error in benefit payments.

Customer Fraud

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

¹¹ Underpayments exclude those due to customer error (estimated to be £6.5 million) which are not part of the audit qualification.

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- under-declaration of assets;
- falsely stating the level of their own or partner's earnings;
- undeclared and under-declared occupational pensions;
- customers working but claiming unemployment benefits;
- customers not disclosing they are living abroad; and
- customer's living arrangements where the customer has a partner but is claiming and receiving benefit as a single person.

4.1.20 I note the reduction in estimated fraud from £19.4 million in 2011 to £16.9 million in 2012 and that SSA's continued focus on targeting, detecting and preventing customer fraud appears to be delivering results. In particular, I was pleased to note a decrease in estimated customer fraud for Income Support from £4.6 million in 2011 to £2.5 million in 2012. However, I also noted that while estimated levels of fraud in Incapacity Benefit have fallen to £4.8 million this year from £6.1 million in 2011, they remain high. I asked SSA to comment on its progress in relation to further reducing estimated levels of customer fraud.

4.1.21 SSA told me that it remains focused on sustaining and improving further the current low levels of fraud in the benefit system. SSA's fraud and error modernisation programme has already

resulted in the integration of customer fraud and error activity into a single cohesive organisation, the Single Investigation Service. Further activities are also underway including enhanced powers contained in the Welfare Reform Bill and new IT systems to improve the detection of fraud and error.

4.1.22 In relation to Incapacity Benefit, caseload is now reducing as there are now no fresh claims for benefit and customers are migrating to Employment and Support Allowance. Part of this process involves a reassessment process as cases move to Employment and Support Allowance. It is expected that Incapacity Benefit fraud will reduce significantly in monetary terms as this migration moves to completion. Although SAU no longer monitor the Incapacity Benefit live load, as part of the Divisional Error Reduction Plan it continues to monitor Incapacity Benefit appeal cases (overpayments and maternity allowance cases). This work will ensure the ongoing detection of customer fraud, customer error and official error within Incapacity Benefit. As part of the Error Reduction Plan, the Active Case Management case cleansing team will continue to be funded for the 2013-14 year. Their role is to check high risk cases (identified through the Analytical Services Unit risk model).

4.1.23 Although the exercise is to primarily identify errors rather than customer fraud, the work of the team continues to detect customer error in relation to undeclared pensions. These cases are referred to the

Divisional Fraud Liaison Officer for further investigation. The Divisional Fraud Liaison Team has also been funded for the 2013-14 year. Part of the Fraud Liaison Officer's role is to encourage staff to refer irregular class 1 National Insurance Records System (NIRS) records for investigation and the cases referred may involve payment of Incapacity Benefit thus raising awareness again of potential customer fraud.

4.1.24 SSA's anti-fraud work is overseen by the Fraud and Error Reduction Board and the scale of its activities is extensive. On an annual basis against a caseload of 650,000 customers, over 100,000 fraud and error activities take place identifying approximately 14,000 errors, of which about 1,000 are fraudulent. My report at **paragraph 4.1.47 to paragraph 4.1.54** examines this important work in more detail.

Customer error

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

- the benefits system is complex for customers to navigate;
- customers are generally unaware of rules on capital, investments or

redundancy payments and do not easily understand deductions for non-dependants;

- customers do not readily understand that they have to report any changes in their circumstances; and
- many customers incorrectly believe that reporting changes once to a public body will lead to all government bodies updating their records for that individual.

4.1.26 I was disappointed to note that the estimated level of customer error has almost doubled this year to £13.1 million from £7.3 million last year. This appears to be mainly due to substantial increases in estimated error in three benefits - Employment and Support Allowance, Income Support and State Pension Credit. I asked SSA for its comments. SSA told me that estimated customer error overpayments have increased in monetary terms from £7.3 million in 2011 to £13.1 million in 2012, but placed in context, this represents an increase in the level of estimated overpayments from 0.2% to 0.3% of total benefit expenditure. While a significant rise in Employment and Support Allowance benefit expenditure in 2012 contributed to the increase in the total monetary amount of overpayments, the level of customer error within this specific benefit increased only slightly from 1.0 per cent in 2011 to 1.1 per cent in 2012. The findings from 2012 highlight an increase in the customer error overpayment level within the State

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Pension Credit benefit. This was primarily due to the non-declaration, or inaccurate declaration of occupational pensions, capital and customers receiving other forms of income.

- 4.1.27 The findings from the 2012 benefit review results will steer SSA's priorities in tackling customer fraud and error, with particular focus being placed by the new Single Investigation Service on the emerging difficulties associated with State Pension Credit customer error. In relation to the increase in reported customer error within Income Support this is largely down to SSA's success in customer intervention activity. This includes the work on the lower risk compliance cases where criminal investigation is not appropriate. In addition to normal intervention activities during 2012-13 the Working Age Network within SSA implemented a process of intervention to improve accuracy levels and ensure customers comply in future with their obligation to report all changes of circumstances. Following direct contact with customers, it was determined that customer error in Income Support was most commonly attributed to Premiums, Income & other benefits, Conditions of Entitlement, Applicable amounts and Capital.

Official error

- 4.1.28 Official errors are those that are attributed as being the fault of SSA and can cause hardship to customers when underpayments occur. They can take time to identify and correct and as a result their cumulative impact on resource and efficiency can be considerable. As such, these errors are in my view the ones that SSA is best placed to reduce. The main reasons for Social Security official errors are:
- incorrectly recording a customer's income;
 - incorrectly applying complex benefit rates; and
 - making errors in establishing the customer's status (such as their fitness for work, single status etc.).
- 4.1.29 These factors can also be subject to frequent change over the course of a claim, which can increase the propensity for overpayments and underpayments due to official error. The majority of official errors resulting in overpayments and underpayments arise when adjustments are made to existing claims, rather than when processing a new claim. The levels of official errors are proportionately higher in means-tested benefits, where entitlement depends on SSA collating and assessing a wide variety of information. For example, State Pension has a low error rate, whereas State Pension Credit, which is more complicated to administer due to its means-tested nature, has much higher official error rates (1.26 per cent of overpayments and 1.29 per cent of underpayments in 2012). One of the aims of Welfare Reform is to reduce such errors by combining a number of existing

working age means-tested benefits into the new Universal Credit benefit.

4.1.30 Estimated overpayments due to official error have reduced from £13.2 million in 2011 to £12.7 million in 2012 with a significant reduction having been achieved in Employment and Support Allowance (the estimated error rate has reduced from 2.1 per cent of benefits paid in 2011 to 1.3 per cent in 2012). There has also been a reduction in estimated underpayments due to official error from £14.0 million in 2011 to £12.8 million in 2012. This reduction has been achieved across a range of benefits. However, despite the general fall in estimated underpayments, I was disappointed that underpayments of State Pension Credit increased from £2.1 million in 2011 to £4.4 million in 2012.

4.1.31 I asked SSA to explain the reasons for the movement in estimated official error this year. SSA told me that both the levels of Official Error overpayments and underpayments remained constant for 2012 and 2011; both at 0.3 per cent of total benefit expenditure respectively. In overall terms the levels of official error fell to their lowest level yet of 0.5 per cent of expenditure and SSA felt that this represented a new achievement by returning a 99.5 per cent rate of financial accuracy. Looking across the range of benefits, enhancements in Employment and Support Allowance have contributed to the above improvement, while other key branches such as Disability Living Allowance and

State Pension have maintained extremely high levels of accuracy of 99.9 per cent and 99.8 per cent respectively. Work will continue with Employment and Support Allowance to continue targeting and correcting historic error while supporting the branch in maintaining high levels of accuracy in current processing.

4.1.32 Specifically in relation to State Pension Credit the level of Official Error underpayments rose from 0.6 per cent to 1.3 per cent of expenditure in 2012. This increase was due to the number of State Pension Credit official error underpayments identified rising from 33 in 2011 to 61 in 2012. This is based on a sample size of 936 cases. State Pension Credit is one of the most complex benefits to administer and the main areas of error related to the incorrect treatment of 'Capital', 'Income' and 'Housing Costs.' The errors have been fed back to the branch and will be the subject of discussion at quality forums within State Pension Credit branch to inform future action, including training. Additional funding will also continue in the 2012-13 year for State Pension Credit to target official error with particular focus on the findings arising from the 2012 results.

4.1.33 SSA also prepares a separate Social Fund White Paper Account and on 29 March 2013 I qualified my audit opinion for 2011-12 due to significant levels of official error in social fund payments (except for winter fuel payments and cold weather payments).

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Other matters

Disability Living Allowance - Changes in Circumstances

- 4.1.34 Note 26 of SSA financial statements identifies cases where a gradual change in customers' needs has occurred, so that entitlement to Disability Living Allowance (DLA) may have changed. Although it would be unreasonable to expect the customer to know at which point that had occurred and therefore it is likely that SSA will only become aware of this when the individual's DLA entitlement is subject to a periodic reassessment. If this reassessment finds that their condition has gradually improved or deteriorated to an extent that it now impacts on their care and/or mobility needs, then there may be a change in the benefit allowance paid to the individual. This would not, however, result in any underpayments or overpayments in the period up to the reassessment because under benefit legislation it is for SSA to prove that entitlement to DLA is incorrect. Any adjustment to an individual's entitlement would therefore only take place from the date of the review.
- 4.1.35 SSA last carried out a full benefit review of DLA in 2008 and at that time it estimated that around 18.2 per cent of DLA cases contained a change in customer circumstances that had not been reflected in the DLA benefit being paid. Using these figures, SSA estimates that in 2012, some customers have received £47.8 million more than they would have been potentially entitled to if their customer circumstances were reassessed, and other customers are estimated to have received £24.4 million less than they would have been potentially entitled to.
- 4.1.36 I acknowledge that these DLA cases are legally and procedurally correct. However I am concerned by the amounts that could be involved in potential adjustments to DLA benefit as a result of changes in circumstances. I note that SSA excludes these potential adjustments from their reported fraud and error over and underpayment figures. Identifying when customer circumstances change at the earliest opportunity is important for both SSA and the customer. I asked SSA what is currently being done to reduce the incidence of these specific DLA cases. SSA told me that it is continuing with its Periodic Enquiry process for Disability Living Allowance, which identifies cases where a change of circumstances is more likely. For 2012-13 SSA examined 2,302 cases which resulted in a monetary value adjustment of £2.647 million. SSA's Fraud and Error Reduction Board also ring-fences specific funding year on year to target and correct these specific DLA claims.
- 4.1.37 I do, however, note that under Welfare Reform, it is planned that DLA will gradually begin to be replaced by Personal Independence Payments (PIP) for people of working age (16 to 64) starting in late 2013, subject to legislative agreement. Once

implemented, PIP will see the introduction of a new assessment process which will involve a face to face consultation with a trained independent health professional in the majority of cases. The majority of awards made under PIP will be for a fixed period and subject to regular reviews and this should reduce the extent of potential under and overpayments due to gradual improvements or deteriorations in a customer's health, which impacts on their care and/or mobility needs.

Benefit debt

4.1.38 Benefit debt arises whenever benefits are paid in error or as a result of fraud by customers. At 31 March 2013, customers owed the SSA a gross debt amount of £109.2 million and **Figure 13** shows a breakdown of the total debt as at 31 March for each of the last five financial years.

Figure 13: Movements in Benefit debt

	March 2009 £million	March 2010 £million	March 2011 £million	March 2012 £million	March 2013 £million
Opening gross benefit debt	75.7	81.8	90.7	95.2	104.2
Debt created in year ¹²	27.5	37.5	31.2	38.8	31.8
Debt recovered in year	(9.2)	(11.5)	(11.7)	(12.5)	(13.9)
Debt written off in year	(12.2)	(17.1)	(15.0)	(17.3)	(12.9)
Closing gross benefit debt	81.8	90.7	95.2	104.2	109.2
Impairment / Discounting adjustment	(51.3)	(51.8)	(56.3)	(59.6)	(59.2)
Total net benefit debt	30.5	38.9	38.9	44.6	50.0

Source: Social Security Agency financial statements 2008-09 to 2012-13 (gross and net benefit debt to be recovered, debt written off); Social Security Agency (debt recovered and impairment/discounting adjustment).

4.1.39 SSA has examined the gross debt figure and assessed how much of this debt may not be recovered from the customer (i.e. is impaired) based on a number of factors including:

- whether the debt has been overdue for a long period of time;

- whether contact with the customer has been lost; and
- whether the customer may not be able to afford to repay.

This gross figure has also been discounted to reflect the time value

¹² Debt created in year is a balancing figure and assumed to represent the amount of new debt in the year.

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of money (based on the appropriate HM Treasury interest rate) and the fact that it may not be recovered for some time. Based on this impairment and discounting, the gross debt figure of £109.2 million at 31 March 2013 has been reduced by £59.2 million to £50.0 million.

4.1.40 I asked SSA to comment on why there has been an increase in the gross debt from £104.2 million at 31 March 2012 to £109.2 million at 31 March 2013. SSA told me it is important to note that there are statutory and other limitations in place regarding the amount of benefit overpayment debt that can be recovered which means that SSA is not able to recover debt at the same rate at which it is identified. However, it remains committed to ensuring that debt recovery levels are maximised within the confines of existing legislative limitations and continues to review and refine its debt recovery processes and procedures. SSA pointed out this approach has secured increasing benefit overpayment debt recovery levels over recent years; £9.2 million in 2008-09 to £13.9 million in 2012-13.

4.1.41 I remain concerned that both the gross and net levels of benefit debt have increased considerably over the past five years and I have made a number of recommendations to the SSA to address these concerns. The SSA has a number of new strategic and operational developments currently underway. These include the establishment of a Debt Transformation Project led by an Assistant

Director with the support of a Debt Controller and the Strategic Business Case for the Debt Transformation Project has recently been approved by DFP. The early outcomes from these new initiatives have resulted in:

- the percentage of debtors actively repaying their debts rising from 37.4 per cent in 2011 to 46 per cent in 2013;
- the percentage of outstanding debt where repayments are being made has risen in the same period from 54.2 per cent to 64.7 per cent; and
- benefit overpayments recovered have risen from £9.2 million in 2008-09 to £13.9 million in 2012-13.

4.1.42 I acknowledge that the recovery of benefit debt is complicated by the significant restrictions that are placed by legislation on the amounts that can be recovered. This is particularly the case when customers are still receiving benefits and are often only able to repay very small amounts each week and therefore will take many years to fully repay the debt. The recovery of debt from customers no longer receiving benefit can also be difficult. I note that the amount of debt recovered in 2012-13 has increased in the year. Nevertheless it is important that SSA is doing all it can to manage this debt and this is an area which I have reported on previously and will continue to examine closely in future years. I note also that legislative changes are

being sought by SSA to assist with their recovery of benefit debt and that the introduction of Universal Credit is likely to have a significant impact on benefit debt, with tax credits (and any related overpayments) included within these payments being administered by SSA.

4.1.43 SSA told me it is developing a Debt Strategy and has established a Debt Transformation Project to manage implementation of the agreed Welfare Reform changes relating to recovery of Government Debt, including benefit overpayment debt. The proposed Welfare Reform legislative changes include enhanced debt recovery powers, such as:

- seeking recovery of all overpayments regardless of cause. For specific working age benefits, overpayments due to official error will become recoverable and require changes to the existing debt recovery processes and related systems; and
- the provision to recover benefit overpayment debt using direct attachment of earnings, i.e. through a deduction to the debtor's salary processed with their employer at source.

in the average case value written off in 2012-13. Amounts are only written off in cases where SSA considers there is no possibility of any recovery. I asked SSA why a considerable number of cases continue to be written off each year. SSA told me that it manages its debt stock in accordance with legislation, policies and procedures. The volume and value of benefit overpayments written-off annually is impacted in the main by the volume and value of new overpayments identified across the business. This can fluctuate for a variety of reasons, for example, special case cleansing exercises or changes in the volume of changes in circumstances being reported by claimants.

4.1.45 I also note that in 2012-13, £6 million (2011-12, £10 million; 2010-11, £7 million) of the benefit debt written off related to overpayments made as a result of official error by SSA. In such cases SSA has no statutory right of recovery. I am aware that legislative change to permit recovery of official error overpayments is being considered as part of Welfare Reform and if this is introduced, it may reduce the amount of debt written off and improve recoveries. I will continue to monitor the value of cases written off.

Benefit debt written off

4.1.44 **Figure 14** shows the number and value of benefit cases written off over the last five years and I welcome the reduction

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Figure 14: Trends in benefit debt written off

	March 2009	March 2010	March 2011	March 2012	March 2013
Value of cases written off	£12.5m	£17.1m	£15.0m	£17.4m	£12.9m
Number of cases written off	51,000	54,343	53,296	45,583	43,340
Average case value written off (£)	£245	£315	£282	£382	£297

Source: Social Security Agency financial statements 2008-09 to 2012-13

Employment and Support Allowance (ESA)

4.1.46 ESA replaced Incapacity Benefit and Income Support on the grounds of incapacity, for new claims following its introduction in October 2008. In the early years of ESA implementation, the financial accuracy rates were reflective of the fact that this was a new benefit. In 2010, the financial accuracy rate was 94.6 per cent, in 2011 it was 95.5 per cent and this has improved again in 2012 to 97.6 per cent, exceeding SSA's 96 per cent target. This improvement reflects the focussed efforts by SSA over the last year. However, I note that the 2012 target remains lower than the financial accuracy targets for other benefits which, as outlined in the Annual Report, are either 98 per cent or 99 per cent. I asked the SSA why in the fourth year of this benefit a financial accuracy target for ESA of only 96 per cent was set. SSA told me that when Employment and Support Allowance financial accuracy was first measured in 2010 the reported accuracy figure was 94 per cent and at that stage 96

per cent was a challenging target.

It has taken time for the benefit to bed in with Employment and Support Allowance financial accuracy improving year on year. In 2012 the 96 per cent target was exceeded for the first time. Consequently the target for 2013 has now been raised to 98 per cent.

Counteracting customer fraud and error

4.1.47 In general, I acknowledge the considerable effort and resources that SSA has put into reducing the estimated levels of customer fraud and error, including a risk based process to identify cases with a high risk of customer fraud and error which require investigation, the establishment of a fraud hotline and online reporting of suspected benefit fraud.

4.1.48 I have previously recommended that SSA develops its programme of data matching benefit payments with occupational pensions data and I welcome the fact that SSA's focussed work in this area has yielded significant

results. In 2012-13 customer error of £1,355,652 due to undeclared and under declared occupational pensions was detected, of which £1,013,879 was Incapacity Benefit and £78,111 was State Pension Credit. A further £127,260 was detected in State Pension Credit under the National Fraud Initiative. I am encouraged by the fact that the SSA continues to develop its data matching reviews beyond the National Fraud Initiative to better direct resources to detect fraud and error. I will monitor future progress in this important area.

- 4.1.49 The Customer Compliance Unit became fully operational last year. It examines lower risk case referrals that are considered to be susceptible mainly to customer error and where there is insufficient evidence to prove fraud. Suitably qualified staff interview customers to ensure all changes in circumstances are identified and reported. In 2012-13 this team has reported £4.6 million of additional benefit adjustments which it estimates has saved around £17 for every £1 spent.
- 4.1.50 A key part of reducing fraud is ensuring that an effective deterrent to fraud is available in the form of appropriate penalties. I am encouraged by the work undertaken in the year by SSA's Fraud Unit and SSA has told me that during 2012-13 it imposed 1,058 sanctions on customers (2011-12, 1,025) who had made fraudulent claims for benefit. These included:

- 567 people convicted in the courts for fraud totalling £4.1 million, with offenders receiving jail sentences, suspended jail sentences, community service orders, conditional discharges and fines; and
- 491 administrative penalties imposed by SSA. These occur when a customer is offered the chance to pay a penalty of 30 per cent of the outstanding debt as an alternative to prosecution.

4.1.51 SSA has also told me that its Financial Investigation Unit has brought about the recovery of £435,636 of criminally obtained assets (2011-12, £610,286) by way of confiscation orders obtained through the courts and additional voluntary payments.

4.1.52 In relation to cross border benefit fraud, SSA continues to work closely with the Department of Social Protection in the Republic of Ireland through the cross border forum. SSA has told me that at 31 March 2013, a total of 21 suspected cross border benefit fraud cases were being investigated and that in 2012-13, overpayments valued at £314,341 were raised on 15 cases finalised during this year.

4.1.53 I note that from April 2013, SSA has in place a Single Investigation Service (SIS) for tackling all customer fraud and error. This new unit brings together all fraud and error investigation (fraud, compliance and intervention) into one unit responsible for operations and

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policy. The unit will then investigate all suspected Universal Credit fraud and error. The benefit of a Single Investigation Service is that this unit will have oversight of all fraud and error initiatives in one area and will provide an holistic investigation service which is more responsive to matters arising.

4.1.54 I welcome that this risk assessed work programme will be supported in the future by the new Integrated Risk and Intelligence Service, a UK wide system for analysing data to support counter fraud and error activities. Once fully implemented, the Integrated Risk and Intelligence Service should better target SSA resources through the use of risk profiling, data matching (with real time information from a wide range of internal and external sources) and using analytical expertise including specialists in customer behaviours. I will monitor the performance of SSA's SIS, especially its impact in preventing fraud and error entering the benefit system in the first instance when new claims are made and during the transition of existing customers to Universal Credit and Personal Independence Payment benefits.

National Fraud Initiative

4.1.55 The National Fraud Initiative (NFI) is an exercise to conduct data matching reviews to assist in the prevention and detection of fraud and I welcome that SSA has fully engaged with this process. The NFI gathers information from various

datasets across the public sector and matches these datasets against each other in order to identify potential incidences of fraud. The outcomes to date of this exercise in Northern Ireland have demonstrated the value of NFI in identifying and countering benefit fraud and error.

4.1.56 SSA has taken part in two NFI exercises which have involved matching data from a number of databases such as payroll, occupational pension details and Northern Ireland Housing Executive data. By investigating the data matches, the first matching exercise identified 4,612 cases to be investigated by SSA and resulted in 1,238 fraud investigations. To date, fraudulent overpayments of £4.91 million have been identified in 1,196 cases and 150 cases resulted in Court convictions. In addition customer error overpayments of £146,000 and underpayments of £20,000 have been identified.

4.1.57 The second NFI data matching exercise produced 9,100 cases to be investigated by SSA. All these cases have now been risk assessed and errors have been identified in 246 cases with overpayments of £591,000 and underpayments of £17,000 arising. A further 452 cases have been sent for consideration of criminal investigation. I note that SSA has begun its preparations for the third NFI data matching exercise and that this work will include matching its customer data with that held by DARD.

Welfare Reform

4.1.58 The changes to the welfare system arising from the Welfare Reform Act are being implemented in Great Britain on a phased basis from April 2012, with Universal Credit starting from October 2013. Subject to approval by the Assembly, Universal Credit will begin to be introduced in Northern Ireland from April 2014 to replace a range of existing means-tested benefits and tax credits for people of working age. The primary aim of Universal Credit is to create a single streamlined working age benefit, which will be withdrawn gradually as earnings increase, thus creating the incentive to encourage customers to return to work. It is also intended that this streamlining of benefits will reduce or remove some of the current complexities around benefit entitlement, verification of customer circumstances and the administrative burden that can increase the opportunities for fraud and error. The implementation of this new benefit regime is a key area of work for SSA in the coming years. It is critical that this process of significant and fundamental change is effectively managed by SSA and I will closely monitor this process and its outcomes in coming years.

statements on the regularity of benefit expenditure (other than State Pension benefits). I do, however, acknowledge that SSA continues to address the matters which give rise to the longstanding qualification of my opinion. This includes SSA's ongoing efforts to further improve the accuracy of benefit payments and its various anti-fraud initiatives which have maintained the level of estimated fraud and error at historically low levels.

Conclusion

4.1.59 I consider that the estimated levels of fraud and error reported are material and I have therefore qualified my opinion on the 2012-13 SSA financial

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5.1 Child Maintenance Enforcement Division 2012-13

Introduction

5.1.1 The Child Maintenance and Enforcement Division (CMED) is a Division within DSD which was established on 1 April 2008 to replace the former Child Support Agency. CMED became the Child Maintenance Service (CMS) on 1 April 2013. Its main purpose is to:

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

5.1.2 DSD is required under an Accounts Direction from the Department of Finance and Personnel (DFP) to prepare a Client Funds Account. This is a receipts and payments account showing mainly child maintenance received from non-resident parents, payments made to persons with care and a statement of cash balances held at the year-end which outlines mainly the amount of maintenance received but not yet paid out. The

Direction also requires DSD to provide a summary of the amounts due in respect of unpaid maintenance assessments together with its assessment of the extent to which any outstanding maintenance arrears are likely to be collected at the year end. The administration costs of running CMED are not included within this account but instead are paid for through DSD's Resource Account.

5.1.3 I am required to examine and certify the CMED Client Funds Account and report the results to the Northern Ireland Assembly. In doing this I give an opinion on three specific elements of the account:

- the regularity of the receipts and payments included in the account i.e. if they comply with the regulations governing them;
- the truth and fairness of the figures included in relation to maintenance arrears in Note 7.1 which I am required to report on specifically; and
- that the receipts and payments part of the account (i.e. the remainder of the account apart from Note 7.1) is properly presented.

5.1.4 In every year since the inception of child support in April 1993, my audit opinion has been qualified. My work this year has again concluded that a qualified audit opinion is still required in relation to the regularity of receipts and

payments and the truth and fairness of the maintenance arrears figures in Note 7.1 to the Client Funds Account¹³. My opinion in relation to the receipts and payments part of the account being properly presented is not qualified.

- 5.1.5 I have provided a summary below of the issues giving rise to the qualifications and also an update on the issues I reported on last year.

Qualified Audit Opinions

- 5.1.6 I have qualified my audit opinion on the following areas:

- on regularity of maintenance assessments because I consider the estimated level of error in maintenance assessments to be material (see **paragraphs 5.1.8 to 5.1.14**); and
- on the accuracy and completeness of the outstanding maintenance arrears at 31 March 2013 as shown in Note 7.1 to the Client Funds Account. As a result of an inadequate audit trail, my examination of the arrears balance was severely limited and therefore I was unable to obtain enough evidence to satisfy myself as to the accuracy and completeness of the outstanding maintenance arrears of £81.5 million (**see paragraphs 5.1.15 to 5.1.18**).

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

Qualified Audit Opinion - Regularity of maintenance assessments

- 5.1.8 In each of my audits since 1993, I have identified a significant level of error in maintenance assessments. The level of error was particularly high in the early years of child support and there has been considerable improvement more recently. Since maintenance assessments, once calculated, can stay in place for a number of years, the level of error in past years is likely to continue to impact on the amounts collected in the current year.

- 5.1.9 DSD has established a Case Monitoring Team (CMT) within CMED to provide estimates of the level of error in maintenance assessments. In order to do this CMT selects random samples of assessments made in the current year and subjects them to a detailed examination for evidence of error. The results of this testing are then used to determine the estimated overall level of error in current year maintenance assessments. In 2012-13 the level of error was 3.5 per cent as set out in **Figure 15**.

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Figure 15: Cash Value Accuracy¹⁴ of Maintenance Assessments

	2008-09 %	2009-10 %	2010-11 %	2011-12 %	2012-13 %
Cash Value Accuracy	95.4	96.8	96.0	96.4	96.5
Cash Value Accuracy Target	97.0	97.0	97.0	97.0	97.0
Level of Error	4.6	3.2	4.0	3.6	3.5

Source: Case Monitoring Team (CMED)

5.1.10 I examined the work undertaken by the CMT to assess the estimated level of error. My staff examined and re-performed a sample of the CMT's case work during the year and also reviewed the methodologies applied in carrying out this work. While it is important to note that the estimates are based on sample testing and are therefore by their very nature subject to uncertainty, I am content that they do represent the best available measure of cash value accuracy and are a reasonable estimate of the rate of errors in maintenance assessments.

5.1.11 DSD is required to calculate maintenance assessments in accordance with the relevant legislation. When an error is made in a maintenance assessment, both the receipt and associated payment are incorrect and have not complied with the relevant legislation. In my opinion the amount of error in relation to maintenance receipts this year is significant both because of the level of error in this year's assessments and also in assessments made in previous years that continue to impact on the current year.

5.1.12 Therefore whilst the account properly presents the amounts of child maintenance received and paid in the year, I have qualified my audit opinion on the regularity of maintenance assessments because of the levels of error identified in those assessments made in both the current year and in previous years. These assessments are not in accordance with the legislation governing them.

5.1.13 I asked DSD to comment on the levels of error in maintenance assessments and DSD told me there continues to be a strong focus on the most recent case decision accuracy and this remains an important aspect of the improvement process. Additionally, DSD told me that errors identified as part of the case monitoring process are used to inform training and coaching plans at both a team and individual level. The continued investment in training and coaching by DSD has contributed to accuracy improvement in recent years and DSD will continue to focus on accuracy improvement as a priority to ensure that assessments are right first time. The Child Maintenance Scheme

¹⁴ Cash Value Accuracy is a measure of the number of correct assessments against the number of incorrect assessments

2012 (CMS 2012) was introduced on 10 December 2012 on a pathfinder approach and the system has been enhanced to simplify and improve accuracy in calculations.

- 5.1.14 I also asked DSD why the cash value accuracy targets they set have continually not been met (see **Figure 15**). DSD told me that accuracy is measured to within a tolerance of 2.45 per cent and therefore considers this target to have been achieved, despite staff resources being significantly under complement. DSD aims to continually improve accuracy by investing heavily in its staff, improving efficiency and eliminating unnecessary rework to ensure that the accuracy target can be met in the future. DSD's focus for the future will be to work closely with colleagues in the Department for Work and Pensions on the continued roll-out of the CMS 2012. The simplification of rules supported by a more robust IT system is likely to improve the accuracy of maintenance assessments.

Disclaimed Audit Opinion - Note 7.1 Outstanding maintenance arrears

- 5.1.15 DSD maintains the accounting records for CMED Client Funds on two systems - the Child Support Computer System (CSCS) and the Child Support 2 (CS2) system. Both of these systems have a long history of problems and are unable to directly generate the information needed to prepare the Account. The outstanding maintenance arrears at 31 March 2013, disclosed in Note 7.1 to the Account, is derived from the total outstanding maintenance arrears balances recorded on these two systems, in conjunction with a series of complex manual workarounds.
- 5.1.16 The outstanding maintenance arrears balance of £81.5 million comprise numerous individual cases, some dating back to 1993 and the IT problems discussed above mean that DSD is unable to provide evidence to support this balance on an individual case by case basis. The Public Accounts Committee recommended that DSD should resolve this situation in its report in 2008 and I have also made recommendations in relation to this for a number of years, but despite significant attempts DSD has been unable to produce accurate information to support the outstanding maintenance arrears note. In the absence of this information, my examination of the outstanding maintenance arrears balance was severely limited as there is no reliable evidence available to support the arrears balance of £81.5 million reported in Note 7.1.
- 5.1.17 In previous years, I have qualified my opinion on Note 7.1 to the Client Funds Account by way of a limitation of scope qualification. However this year I have reviewed and clarified the scope of my audit opinion which consists of three distinct elements as set out at **paragraph 5.1.3**. This type of opinion is very unusual as it requires me to comment specifically on the truth and fairness of

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one note rather than taking the whole account into consideration as would normally be the case. Consequently I have decided that, in relation to Note 7.1 only, I am unable to conclude on the accuracy and completeness of the maintenance arrears balances and therefore my audit opinion in respect of this note is disclaimed. This type of audit qualification reflects the fact that I consider the uncertainties in relation to maintenance arrears to be both material and pervasive to that note.

- 5.1.18 I recognise that the resolution of this issue is to some extent outside DSD's control as it has been caused by IT problems that go back to the inception of DSD's involvement in child support arrangements. I consider that it is important that the issues which have given rise to my qualification are addressed in a way that will improve the operational effectiveness of the organisation. I asked DSD what was being done to address this long standing issue and DSD told me that significant attempts have been made in recent years to generate arrears listing reports on a case by case basis, however due to the limitations of the Child Support IT systems, CSCS and CS2, it has not been possible to generate accurate case listings which fully reconcile to the Client Funds Account. DSD has implemented a range of operational reports which allow DSD to focus recovery action in non-compliant cases. In addition these reports will assist DSD in the roll-out and implementation of a range of measures designed to tackle historic arrears.

With the continued implementation of the CMS 2012, DSD expects to be in a position to provide accurate arrears listings on a case by case basis for CMS 2012 cases.

Other issues

Outstanding maintenance arrears and its collectability

- 5.1.19 Where a non-resident parent does not make child maintenance payments in accordance with the maintenance assessment and DSD is responsible for collecting those payments, any missed, or any shortfall in payments are recorded as maintenance arrears. As is the case in Great Britain, legislation prevents DSD writing off outstanding maintenance arrears.
- 5.1.20 **Figure 16** records that the gross outstanding maintenance arrears balance has fallen for the first time in several years by £1.5 million to £81.5 million in 2012-13, although I understand that a large part of this reduction has been achieved by amending some incorrect balances carried forward from previous years.

Figure 16: Outstanding maintenance arrears

	2008-09 £m	2009-10 £m	2010-11 £m	2011-12 £m	2012-13 £m
Gross outstanding maintenance arrears	80.9	80.7	81.7	83.0	81.5
Amounts probably and possibly uncollectable ¹⁵	47.6	45.7	45.8	46.6	61.4
Net outstanding maintenance arrears likely to be collectable	33.3	35.0	35.9	36.4	20.1

Source: CMED Accounts 2008-09 to 2012-13

5.1.21 However I was concerned by a considerable increase by around 32 per cent to £61.4 million in the amounts considered to be probably and possibly uncollectable. This means that DSD now considers that it is likely to collect less than 25 per cent of the total maintenance arrears balance. I asked DSD to comment on the significant increase in the level of maintenance arrears considered to be probably and possibly uncollectable.

5.1.22 DSD told me the arrears balance on the Client Funds Account has been accumulating since 1993. As the balance ages, it becomes increasingly difficult to collect. In 2009 when the collectability analysis was last completed, approximately 70 per cent of the live and assessed caseload was over 5 years old; this has now increased to over 80 per cent. In December 2012 DSD introduced legislation that enabled some arrears of child maintenance, owed to parents with care, to be written off in specific circumstances for example

where the Parent with Care no longer wants the arrears collected. By writing off arrears in specific circumstances, DSD will be able to focus resources more effectively on cases where the arrears are likely to be collected. In addition to the continued aging of the arrears balances, there are other factors which impact on DSD's ability to collect arrears. More specifically almost 40 per cent of paying parents remain on benefits. DSD is liaising with DFP with a view to reviewing and possibly extending write-off powers ahead of the full implementation of CMS 2012, subject to ministerial approval. This will ensure that where it is appropriate to do so, some arrears will be written off.

5.1.23 With the removal of compulsion for clients on benefits to use the Child Maintenance Service from 2008 and the introduction of the Choices Service, there are fewer new cases. Additionally DSD's policy direction in respect of Child Maintenance since 2008 has been to promote and support separating families

¹⁵ Amounts probably and possibly uncollectable are estimated by DSD based on an "Outstanding Maintenance Arrears Analysis Exercise" and this is explained in more detail in Note 6.2 to the Client Funds Accounts

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in establishing effective family based arrangements. The overall impact of these policy and legislative changes is a reducing caseload, a higher proportion of which will be older cases with arrears balances that are impossible to collect and where DSD's options for legal enforcement are severely limited. These limitations have a direct impact on DSD's ability to collect outstanding maintenance arrears, which in many cases date back to the 1993 scheme.

Enforcement of arrears

5.1.24 DSD has a number of options open to it to try to pursue outstanding maintenance

arrears and the use of these options is detailed in **Figure 17**. However DSD's use of these options is hampered because of problems with IT systems which mean it is unable to accurately profile the outstanding maintenance arrears and thus determine who are in arrears for a considerable length of time, so that enforcement powers can be used to recover payments from non-resident parents. Whilst I acknowledge these IT problems, I am still disappointed that DSD has used enforcement powers in only 13.4 per cent of its arrears cases and that the total number of cases where enforcement powers have been used has again decreased in 2012-13. I asked DSD to comment on this and DSD

Figure 17: Cases where enforcement powers have been used by CMED

Enforcement Powers	2010-11 Number	2011-12 Number	2012-13 Number
Deductions from earnings orders ¹⁶	4,270	4,124	3,839
Liability orders ¹⁷	123	157	76
Lump Sum Deduction orders ¹⁸	57	62	117
Regular Deduction orders ¹⁹	4	10	35
Application to courts to force property/land to be sold	2	1	0
Total	4,456	4,354	4,067
Number of cases in arrears	30,700	30,900	30,455
Percentage of cases where enforcement powers are in place	14.5%	14.1%	13.4%

Source: CMED

16 Deductions from earnings orders allow maintenance and arrears totalling up to 40 per cent of the non-resident parent's net income to be deducted by employers.

17 Liability orders are the first step to other civil enforcement measures using the Court system.

18 Lump sum deduction orders can be attached to savings accounts to recover child maintenance arrears.

19 Regular deduction orders are used to collect arrears at regular intervals.

told me that as a result of the continuing economic downturn there are fewer parents in employment which in turn restricts any opportunity DSD might have to enforce collections through employers.

5.1.25 DSD also told me that in delivering the full extent of its child maintenance remit, it provides more support and incentives to help parents make collaborative, family-based arrangements. Whilst this approach has contributed to a reduced caseload which in turn reduces the number of cases that would be available for enforcement, the increase in family-based arrangements represents a more positive outcome for the child, the family and society generally. Whilst DSD will continue to use the full extent of the enforcement powers available to it and will actively pursue enforcement action when it is appropriate to do so, DSD will also focus on securing more positive outcomes for children through family-based arrangements.

5.1.26 For the last four years DSD has set a target of £2.8 million for the collection of maintenance arrears. This collection target was again achieved in 2012-13 with recovery of £2.843 million (2011-12: £2.8 million). I am concerned that the target is unchanged and may not be sufficiently challenging. Even if it continues to be achieved and no further arrears occur in the future it would still take DSD over 7 years to recover the current level of outstanding net maintenance arrears. I asked DSD why a more challenging target has not been set and also what action is being taken

to improve the level of maintenance arrears collected.

5.1.27 DSD told me that the outstanding maintenance arrears balance represents payments that parents have failed to make for their children and stressed the importance of getting the message across that non-payment of child maintenance is not acceptable. DSD also told me that the Arrears target continues to be both realistic and challenging for DSD. In setting this target DSD has given careful consideration to a wide variety of variables including the reality of the economic downturn, increased unemployment, lower than average earnings as well as a decreasing and aging caseload. DSD also told me that it continues to make wider use of enforcement powers but this has been restricted by the economic downturn. For example, the decrease in property values has restricted options for recovery through forced sale of land and property.

5.1.28 Last year DSD told me that it was in the process of finalising a Northern Ireland Child Maintenance Arrears Strategy which would set short, medium and long term actions to manage arrears using all the powers available to it. I asked DSD what progress has been made in implementing the strategy and the impact it has had to date. DSD told me that following the publication of the Child Maintenance Arrears Strategy in Great Britain, they have opted to align with the Great Britain approach as far as possible and where appropriate,

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adapt the arrears strategy to its Northern Ireland child maintenance business. DSD's approach to handling historic arrears will be progressed in three stages; short, medium and long term. Those measures, already implemented, are aimed at managing the amount of child maintenance arrears downwards in preparation for transition to the CMS 2012 whilst also improving overall customer compliance. In addition DSD told me it has put in place procedures to manage the transition of cases from its legacy schemes to CMS 2012. DSD also stated that several work packages have been developed to address the amount of historic arrears. This includes a package of work to examine older cases for potential duplicate and incorrect debt balances. To date £1.08 million has been adjusted from the historic arrears balance as a result of this work.

- 5.1.29 DSD also told me that it uses a range of management information reports to assist in targeting specific areas of work to maximise compliance, secure payments and get more money to more children. As CMS moves towards commencement of the full case closure programme and transition of child maintenance arrears to CMS 2012, there will be an associated increase in the activities dealing with the arrears balance which has built up over the last 20 years.

Cost of Collection

- 5.1.30 In 2012-13, every £1 collected in child maintenance cost DSD 57 pence, 2 pence higher than the target of 55 pence set for the year but 2 pence lower than the figure last year. I asked DSD why the cost of collection target was not met and why the cost of collection in Northern Ireland is a lot higher than that in Great Britain (GB) which has a cost of collection figure of 32 pence for 2012-13.
- 5.1.31 DSD told me that in setting the target for 2012-13 it had taken previous concerns that had been raised by me that the target set was not sufficiently challenging. Additionally DSD also took into consideration a range of economic factors which impacted collections as well as the impact of increasing costs across the Northern Ireland Civil Service. Whilst DSD did not achieve the stretching 55 pence target, it was pleased that despite the challenges it faced, cost of collection outturn improved on the previous year.
- 5.1.32 DSD also stressed that value for money and efficiency continues to be a key consideration, consequently DSD has set an even more challenging target of 50 pence for 2013-14. DSD has completed a detailed analysis to understand the difference in the cost of collection between Northern Ireland and Great Britain. This difference is primarily explained by much lower average earnings in Northern Ireland which results in proportionately lower collections.

5.1.33 I also asked DSD what progress had been made to benchmark the cost of collection performance against other similar organisations. DSD told me that significant work has been undertaken in the past to benchmark DSD's cost of collection against similar organisations. This included an analysis of DSD's cost base in service provision. As a result of this work DSD has a clearer understanding of the differences, particularly in relation to Great Britain.

5.1.34 DSD has taken this work forward to drive efficiencies and cost reduction strategies while increasing the amount of maintenance it collects, thereby improving value for money and the quality of service DSD provides to its stakeholders. In moving forward DSD recognises that family-based arrangements not only represent the most secure settlement for families going through separation, they also represent the most efficient way in which child maintenance arrangements can be secured. DSD will therefore continue to focus on promoting and securing effective family-based arrangements.

IT Systems

5.1.35 I acknowledge that many of DSD's problems are due to inadequate and poorly performing IT systems which are part of a larger IT system used by the GB child maintenance body. In my opinion, these systems are not fit for the purpose for which they were intended. I asked DSD how it proposes to address the

problems in the IT systems and DSD told me that while there have been significant improvements in performance and control in recent years, the underlying and fundamental weaknesses in both systems cannot be addressed. Given the limited shelf-life of both systems, the underlying problems would be too costly to put right and would not represent good value for money to fix. In recognising that the current system is not fit for purpose, DSD has committed to the continued implementation of the CMS 2012. When fully operational, the new scheme which is underpinned by a new IT system should overcome many of the problems associated with legacy cases. While the new system will not address the issues of regularity, accuracy and completeness of legacy cases, it should prevent these issues from occurring on new cases that come through the CMS 2012 scheme.

5.1.36 The Commencement Phase 1 of the new CMS 2012 was launched on 10 December 2012. Following my initial review of maintenance assessments on the CMS 2012 system, I am concerned that similar problems have been identified to those which exist within DSD's current IT systems and there remain a number of significant risks in respect of the banking and accounting arrangements for this new scheme.

5.1.37 DSD told me that the design and development of CMS 2012 represents a significant step forward in the delivery of child maintenance services in Northern Ireland. Whilst accepting that there

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have been some teething problems in the initial implementation stages, DSD is content that the new system has delivered a number of improvements that will help to address the significant issues highlighted with legacy systems in respect of regularity, accuracy and completeness. For example, the delivery of the interface with Her Majesty's Revenue and Customs has massively reduced the opportunity for assessment error to occur. There have been significant improvements in automation across the system which has helped to generally improve control, particularly within Client Funds accounting. There currently exists a fully reconciled arrears position which is fully broken down to case level and this will be maintained as volumes increase.

- 5.1.38 DSD has told me that it will continue to work closely with Department for Work and Pensions colleagues on the continued implementation and ramp up of the CMS 2012 Scheme and will monitor issues and risks that arise to ensure that the highest standards of customer service are delivered to our clients and accurate and complete accounting records are maintained.
- 5.1.39 I would encourage DSD to continue to work with its GB counterparts, prior to further phased implementation of CMS 2012, to proactively identify and resolve all IT problems to ensure that a complete and accurate maintenance arrears balance is produced.

Conclusion

- 5.1.40 I have qualified my opinion on the regularity of receipts and payments because I consider the estimated level of error in maintenance assessments to be material and therefore the receipts and payments do not conform to the authorities which govern them. In respect of my work relating to the outstanding maintenance arrears balance of £81.5 million within Note 7.1 to the Client Funds Account, I was unable to obtain sufficient evidence to support this balance and accordingly I have not expressed an opinion on this note.
- 5.1.41 In conclusion it is clear that fundamental challenges remain both in terms of:
- the level of accuracy in the maintenance assessment calculations where errors have been noted for many years; and
 - the level of error within outstanding maintenance arrears balances.
- 5.1.42 I am concerned at the continuing high levels of outstanding maintenance arrears and the extent of IT problems which are making it much more difficult for DSD to be proactive in taking action to recover these arrears. In the coming year I would expect DSD to continue its work on debt recovery and to work with its GB counterparts to overcome the difficulties encountered with the introduction of CMS 2012. I will review these matters again in future audits.

5.2 Northern Ireland Legal Services Commission 2012-13

Background

- 5.2.1 The Northern Ireland Legal Services Commission (NILSC) was established on 1 November 2003 under the Access to Justice (Northern Ireland) Order 2003 to provide Legal Aid in Northern Ireland. It is responsible for administering Civil and Criminal Legal Aid and it is currently a Non-Departmental Public Body under the Department of Justice (DOJ).
- 5.2.2 In 2012-13 NILSC prepared a single set of financial statements for its use of Legal Aid funds (the Grant) and for its administrative operations (the Grant-in-Aid). Prior to 2012-13 NILSC prepared two separate accounts. A qualification has been attached each year to Legal Aid expenditure since the establishment of NILSC. I am again qualifying the 2012-13 financial statements on the same basis as the previous financial year.
- 5.2.3 I published a report in June 2011, highlighting a range of concerns in relation to the administration of Criminal Legal Aid²⁰ which were subsequently considered and reported upon by the Public Accounts Committee (PAC)²¹ in October 2011. The Committee concluded in its report that the absence of a cohesive counter-fraud strategy, based on established best practice meant that NILSC was not well placed to manage the risk of fraud. It

recommended that NILSC take urgent action to identify the risk of fraud and establish proactive counter-fraud measures to manage it. NILSC continues to make progress in this regard which is described in more detail within this report.

Purpose of the Report

- 5.2.4 I am required to examine, certify and report upon the financial statements prepared by NILSC under the Access to Justice (Northern Ireland) Order 2003 as amended by the Northern Ireland Act 1998 (Devolution of Policing and Justice Functions) Order 2010.
- 5.2.5 The purpose of this report is to explain the background to my qualifications on the NILSC Account for the year ended 31 March 2013. I have qualified the financial statements on the basis of two limitations in scope on my work due to insufficient evidence available to:
- satisfy myself that material fraud did not exist within eligibility assessments of Legal Aid applicants and in payments to legal practitioners from Legal Aid funds (Programme Costs) (£102.2 million); and
 - support the assumptions and judgements used to calculate Legal Aid provisions (£95.6 million).

20 NIAO Report "Managing Criminal Legal Aid" published 29 June 2011

21 Report NIA 20/11-15 Public Accounts Committee – Managing Criminal Legal Aid, Session 2011/2012, dated 26 October 2011.

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Limitation in scope arising from insufficient evidence to satisfy myself that material fraud did not exist within Legal Aid grant expenditure

5.2.6 Legal Aid costs in 2012-13 were made up of bills received from practitioners and charges or credits from provisions to give a total expenditure of £91.8 million. **Figure 18** shows the breakdown of costs between Civil and Criminal Legal Aid.

5.2.7 There are two aspects to the limitation in scope. Firstly, there was insufficient evidence to support the eligibility of certain Legal Aid applications and secondly, there was insufficient evidence to support payments to legal practitioners.

Eligibility

5.2.8 Means tested Legal Aid carries a risk that Legal Aid is granted to individuals who are not eligible if income details are misstated on initial application, or if

changes in financial circumstances that arise during the case are not reported by the claimant. NILSC depends significantly upon third parties to verify the eligibility of Legal Aid applications. In Civil cases, eligibility is assessed by solicitors and the Legal Aid Assessment Office (LAAO)²². In Criminal cases, a judge decides upon an applicant's eligibility which is done following confirmation from the LAAO (in 10% of applications) that the applicant is in receipt of the benefit they have stated. However the court has a legal obligation where there is doubt, over the applicant's means or the merits of the case, to resolve those doubts in favour of the applicant. Therefore it is difficult to estimate how much of Criminal Legal Aid is dependent upon an assessment of benefits being claimed. Civil Legal Aid schemes are complex with greater scope for fraud or error in assessing eligibility.

5.2.9 During the financial period, Civil Legal Aid expenditure subject to eligibility checks was as shown in **Figure 19**.

Figure 18: Legal Aid Costs in 2012-13

	Bills Paid /Received for Payment 2012-13 £ million	Provision Charge / Credit £ million	Total Expenditure £ million
Civil	51.9	8.9	60.8
Criminal	50.3	(19.3)	31.0
Total	102.2	(10.4)	91.8

Source: NILSC Financial Statements 2011-12 and 2012-13

22 The Legal Aid Assessment Office is part of the Social Security Agency in the Department of Social Development.

Figure 19: Civil Legal Aid expenditure subject to eligibility checks

Eligibility checks carried out by	Expenditure 2012-13 £ million	% of Civil Legal Aid
Solicitors	9.3	18
Legal Aid Assessment Office	37.2	72
Eligible for Legal Aid without a means test being required	5.4	10
Total Civil Legal Aid	51.9	100

Source: NILSC Management Information

5.2.10 My main concerns relate to eligibility assessments under the remit of the LAAO. There are two aspects of the process involved. Firstly, as LAAO has access to the benefits system, it can confirm that benefits are being paid as claimed in Legal Aid application forms. There is an inherent level of fraud within the benefits system that will also impact on Legal Aid payments. This applies to both Civil and Criminal Legal Aid. Secondly, for applicants who are not in receipt of benefits, for example those employed or self-employed, LAAO rely upon the declarations made in application forms and supporting verification documents, such as payslips and accounts, in order to assess the amount of contributions payable towards Legal Aid costs.

5.2.11 NILSC did not obtain an assessment of the level of actual or suspected fraud or error within the benefits system from DSD. Although NILSC has been in discussions with DSD since my last report, neither a programme of work or a methodology has yet been agreed.

Therefore NILSC is once again unable to provide me with an estimate of the level of fraud or error present within the benefits checked by LAAO in determining Legal Aid eligibility.

5.2.12 DSD's Standard Assurance Unit regularly monitors and measures the level of fraud and error within the benefits system using sampling techniques. Until NILSC develops a similar methodology it has no estimate of the level of fraud or error present within the benefits checked by LAAO in determining Legal Aid eligibility. Approximately 50 per cent of the £37.2 million of Legal Aid expenditure, that is £18.6 million, was assessed by LAAO for applicants in receipt of benefits²³. NILSC does not currently estimate the level of fraud present in the remaining applications for Legal Aid where false or incorrect declarations are made and this is a stream of work that NILSC has to develop also. While the introduction of a new financial eligibility form in February 2013 will not provide LAAO with new information, it will give NILSC

23 These figures exclude Criminal Legal Aid where there is a 10% validation of all applications citing benefits.

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increased authority to verify details made by Legal Aid applicants with third parties, should queries arise from applications, thereby reducing the level of fraud in applications.

- 5.2.13 In last year's audit, my staff found that the statutory computation which the LAO is required to apply to Civil Legal Aid applications is the applicant's eligibility for a period of 12 months, yet Civil Legal Aid cases can run for as long as nine years and an applicant's circumstances may change in the period from assessment to the payment being made. NILSC told me that a re-assessment can be carried out at any point in time if there is significant change in the circumstances of the applicant during the statutory computation period, or outside the computation period, if the change would exclude the applicant from Legal Aid. However, in my view a routine re-assessment should be made before payment has been made for cases where significant legal aid costs have been claimed and where the case has taken more than 12 months to complete.

Payments to Legal Practitioners

- 5.2.14 I also have concerns over the level of fraud in payments to legal practitioners, and increasingly in relation to Civil Legal Aid. The nature of the Legal Aid scheme, in making payments to legal practitioners for services which are directly provided to Legal Aid claimants, creates difficulties for NILSC in determining whether the services were appropriately provided, or if overpayments have been made. Currently, NILSC does not produce an estimate of the likely scale of fraud and error in respect of payments to legal practitioners.
- 5.2.15 In 2012-13 there was evidence of continued progress by NILSC in relation to reducing the risk of fraud and error in Criminal Legal Aid payments. Of the £50.3 million Criminal Legal Aid bill, £34.6 million related to new standard fees²⁴ arrangements. Over time this risk will reduce further, as cases under the old rules (with varying fees claimed per case type) pass out of the system leaving a better controlled caseload under the new costing arrangements.
- 5.2.16 PAC recommended in its 2011 Report, that NILSC should establish a robust inspection regime, including visits to the offices of legal professionals. During these visits, practitioners' records should be inspected, ensuring there is adequate supporting evidence for bills issued and to confirm the eligibility of applicants at the time of payment. The small Counter Fraud Unit operating in NILSC during 2012-13 did not have an inspection regime in place and therefore could not provide me with the level of assurance that other established inspection regimes provide to Legal Aid bodies in other parts of the UK.
- 5.2.17 NILSC did, however, introduce a 1 per cent compliance check in July 2012 which reviewed supporting evidence for practitioners' claims on the Legal

24 Standard fees adopted in the 2009 Magistrates' Courts Rules and 2011 Crown Court Rules

Aid Fund. I note that of 199 criminal claims and 100 civil claims verified during the financial period, one civil case was referred to the Counter Fraud Unit. NILSC told me that its counter fraud group has continued to develop its counter fraud action plan and is utilising its management information systems to examine trends and identify lessons learned from its compliance work to target future work. I will continue to monitor NILSC's progress in implementing these improvements.

5.2.18 I welcome NILSC's plans for introducing a statutory Registration Scheme which will be a register of all providers of publicly funded legal services. NILSC told me that a draft Code of Practice has been developed for individual solicitors and legal firms, and that pilot compliance audits of the Code's requirements were carried out in January and February 2013. A draft consultation paper is currently being prepared for issue to the Law Society of Northern Ireland and the Bar Council of Northern Ireland in preparation for the Statutory Scheme being implemented in the autumn of 2013.

5.2.19 In the absence of a formal inspection regime, NILSC is somewhat dependent upon whistleblowers to identify cases where fraud is present in Legal Aid claims. NILSC informed me that whistleblowers are an important source of information but staff within NILSC continue to identify suspicious claims which they refer for further investigation by the Counter Fraud Unit. Under the

provisions of Managing Public Money Northern Ireland, NILSC has notified its sponsor of a number of suspected frauds. In one of the cases a solicitor is before the court, in relation to a potential fraud. Another case involved over-claiming of hours billed by a solicitor's firm. This is currently being investigated by the PSNI.

5.2.20 Given the weaknesses that remain in the counter fraud arrangements for the eligibility of applicants and payments to practitioners, I have limited the scope of my audit opinion on regularity because I have been unable to obtain sufficient audit evidence to enable me to conclude that payments to legal professionals are regular.

Limitation in scope arising from insufficient evidence to support the rationale used and judgements made when calculating provisions

5.2.21 There continues to be significant issues with the application of the accounting policy, estimation technique and disclosures used by NILSC in estimating outstanding liabilities for services provided by legal practitioners to Legal Aid claimants at each financial year end. These liabilities are referred to as Legal Aid provisions and the figures are outlined in **Figure 20** (*overleaf*).

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Figure 20: Legal Aid Provisions at 31 March 2013

	Provision at 1 April 2012 £ million	Provision at 31 March 2013 £ million
Civil	53.2	62.1
Criminal	52.9	33.5
Total	106.1	95.6

Source: NILSC Financial Statements 2011-12 and 2012-13

5.2.22 Legal Aid provisions, valued at £95.6 million at 31 March 2013 (31 March 2012: £106 million), are estimated by NILSC in two ways. For Very High Cost Cases²⁵ (VHCC) amounting to £7.1 million the provision is estimated on a case by case basis and the 2009 Rules mean that NILSC receives regular reports on costs from legal representatives. The basis of calculation of VHCC is reasonable. Provisions for all other Legal Aid certificates granted (£88.5 million) were valued using a number of assumptions including; assumptions on the lifecycles²⁶ of cases, the number of cases which will not result in costs, and the average cost for each type of case.

5.2.23 Key weaknesses on Legal Aid provisioning were identified in previous audits and continue to recur in 2012-13. These relate to the lifecycle assumptions used and whether they were based on worst case scenarios which were not reflective of normal trends and average costs assumptions. As part of its ongoing review of provisions NILSC has been seeking to identify ways to improve its

methodology. NILSC is now employing a staged approach to address the issues and plan to develop methodologies for Criminal Legal Aid and then translate these to apply to more complicated Civil Legal Aid arrangements.

5.2.24 Legal Aid provisions are challenging to estimate but ensuring that the basis and assumptions used to estimate provisions are reasonable is important for not only the preparation of the financial statements which I audit, but also for ensuring robust budgeting systems going forward. The estimation of these liabilities is, by nature, extremely difficult due to the current out-working of the Legal Aid scheme.

5.2.25 In my last report I recommended that NILSC should consider re-engineering its operational practices to reduce the level of outstanding liabilities that need to be estimated. In doing so NILSC could improve its control over such significant expenditure. For instance, legal practitioners do not currently present bills for work done on a regular and

25 As defined by The Legal Aid for Crown Court Proceedings (Costs) Rules (Northern Ireland) 2005 and The Magistrates' Courts and County Court Appeal (Criminal Legal Aid) (Costs) Rules (Northern Ireland) 2009, also referred to as the 2005 and 2009 Rules.

26 Lifecycle refers to the estimated time it takes to complete each type of case, from when the Legal Aid certificates are granted to when the legal professionals' bills are paid. Lifecycle assumptions are particularly important because they affect the number of Legal Aid certificates which will be included within the calculation of Legal Aid provisions.

timely manner. A change to this practice could substantially reduce the uncertainty of outstanding liabilities at the year end. However, this approach would have implications initially in increased cash payments. NILSC introduced a more robust policy dealing with late submission of bills and has determined that all bills are submitted under this policy.

5.2.26 NILSC has experienced significant difficulties in 2012-13 with cash budget restrictions. NILSC's initial budget from DOJ was £85 million and was renegotiated to £101 million in the period. However, this still fell short of the funding required in the year by £7 million. As a result NILSC restricted payments to legal practitioners from December 2012 on the basis of funds available. In 2013-14 a new budget period began and the backlog of practitioner's bills has now been paid. The level of committed expenditure on Legal Aid will continue to create significant budgeting issues for NILSC in the current financial climate. NILSC told me funding for Legal Aid was being managed closely by NILSC and DOJ. In 2013-14, additional funding of £15 million was provided to NILSC by DOJ; however there remains an estimated shortfall of £12 million which NILSC will continue to seek from DOJ.

5.2.27 I suggested in my last report that the application of standard fee arrangements for Criminal Legal Aid (**paragraph 5.2.15**), could be expanded further across Civil Legal Aid categories,

reducing the estimation assumptions required for outstanding liabilities at the year end, otherwise I consider that continuing with the current approach will not resolve the qualification of provisions. NILSC told me that DOJ has developed extensive proposals which would see the vast majority of Civil Legal Aid expenditure move to a standard fee basis. These proposals will be the subject of public consultation. The Remuneration Order that will introduce standard fees will also bring NILSC's late claims policy onto a statutory footing.

5.2.28 I have limited the scope of my audit opinion on the 2012-13 financial statements because I have been unable to obtain sufficient audit evidence to enable me to conclude that Legal Aid provisions in the financial statements have not been materially misstated.

5.2.29 Limited progress has been made during the financial period to address these audit qualifications, however this is not unexpected as major improvements are required and will take a number of years to address. I welcome the steps that NILSC and DOJ are now taking towards improving controls over Criminal Legal Aid expenditure including the work that has commenced on improving governance arrangements for Civil Legal Aid, including consultation on standard fees.

5.2.30 NILSC has made progress on the timing of its financial reporting and has, for the first time, met the challenging Assembly summer recess timetable. I

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am also encouraged by the ongoing reform work by DOJ during the financial period, including its consultations on financial eligibility for Civil and Criminal Legal Aid²⁷, revised legal fees for Magistrates Court cases²⁸, levels of legal representation in Civil cases, the removal of money damage claims from the scope of Legal Aid and the new consultations for the introduction of standard fees in Civil cases and revisions to the Crown Court fees.

5.3 Northern Ireland Social Fund Accounts 2011-12

Introduction

- 5.3.1 The Social Security Agency (SSA) is required under an Accounts Direction from DFP to prepare the Social Fund Account, which reports Social Fund receipts and payments, a statement of balances and Social Fund loans outstanding at the year end.
- 5.3.2 Section 146(4) of the Social Security Administration (Northern Ireland) Act 1992 requires me to examine and certify the accounts of the Social Fund and to lay copies of that account before the Northern Ireland Assembly.
- 5.3.3 This report reviews the results of my audit of the Social Fund and sets out why I have decided to qualify my audit opinion due to the estimated level of error in Social Fund benefit payments.

It is important to note that since 2006-07, my audit opinion has been qualified because of significant levels of error in Social Fund benefit expenditure (except for Winter Fuel payments and Cold Weather payments).

- 5.3.4 In 2011-12, SSA made Social Fund benefit payments totalling £136.6 million (£173.2 million in 2010-11). Included within this amount are Cold Weather and Winter Fuel payments totalling £54.3 million (£86.1 million in 2010-11) on which the estimated level of error is not significant and does not form part of my regularity qualification.

Audit Opinion

- 5.3.5 In 2011-12 I have found it necessary to qualify my opinion on the regularity of Social Fund payments (except for Winter Fuel Payments and Cold Weather Payments):
- because of the level of overpayments attributable to error which have not been applied to the purposes intended by the Northern Ireland Assembly; and
 - because of the level of under and overpayments in such payments, which are not in conformity with the relevant authorities.

27 Proposals for Reform of Financial Eligibility for Civil & Criminal Legal Aid: Consultation March/June 2013

28 Review of Magistrates Courts 2009 Rules, closed February 2013 – seeks to replace VHCC categorisation with alternative fixed fees.

Qualified opinion due to irregular Social Fund benefit payments

- 5.3.6 For each financial year, I am required to report my opinion as to whether the account properly presents the receipts and payments of the Social Fund. I am also required to report my opinion on regularity, that is, whether in all material respects the receipts and payments have been applied to the purposes intended by the Northern Ireland Assembly and conform to the authorities which govern them.
- 5.3.7 Social Fund overpayments made by SSA, due to error, are irregular as the payments have not been applied in accordance with the purposes intended by the Northern Ireland Assembly. I am also of the opinion that where SSA is responsible for errors that result in underpayments of Social Fund benefits then this is also irregular. This is because SSA is required to make Social Fund payments in line with the entitlement criteria and with the rates specified in legislation. Where it fails to make the correct payment because of error, this is then irregular, as the transactions do not conform to the authorities governing them.
- 5.3.8 The principle applied in forming my audit opinion on these accounts is in line with the approach adopted for SSA's Annual Accounts in 2011-12.

Estimated levels of irregular Social Fund benefit payments due to error

- 5.3.9 SSA, through its Standards Assurance Unit (SAU), regularly measures and reports, on a calendar year basis, on the estimated level of official error, that is, error arising from internal SSA error, for Social Fund payments. In order to do this, statisticians from DSD's Analytical Services Unit provide samples of social fund payments from scans randomly selected by the Department for Work and Pensions. SAU subjects those payments to detailed examination for evidence of under or overpayments due to official error. The results of this testing are then used to estimate the total value of fraud and error within the Social Fund for the year, with associated ranges based on 95 per cent confidence levels. The midpoint of these ranges is used as an estimate of the monetary value of the fraud and error in the year.
- 5.3.10 The exercise covers all types of Social Fund payments apart from Winter Fuel payments and Cold Weather payments that are considered to be less susceptible to error. The SSA presents the results of this exercise in a note to the SSA Annual Report and Accounts which also explains that the estimates are by their nature subject to uncertainty because they are based on sample testing. These estimates do, however, represent the best measure of error available. I examined the work undertaken by SSA and am content that the results produced by the SAU are a reliable estimate of the total error in the benefit system.

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5.3.11 The results of this work are set out in **Figure 21** below which shows that total relevant payments in 2011-12 amounted to £82.3 million with estimated incorrect benefit payments of £1.8 million (on which I have qualified my audit opinion) comprising:

- overpayments due to official error of £1.5 million (1.8 per cent of total relevant payments); and
- underpayments due to official error of £0.3 million (0.4 per cent of total relevant payments).

5.3.12 I was pleased to note that the trend of falling underpayments has continued this year and is now estimated to be less than a quarter of what it was three years ago. However estimated overpayments due to official error have increased this year from £1.0 million (1.1 per cent of relevant payments) in 2010 to £1.5 million (1.8 per cent in 2011). I asked SSA to comment on the movements in over and underpayments and it told me it was disappointed to note the increase in overpayments due to official error which was mainly attributable to Crisis Loan payments. It outlined that the eligibility

Figure 21: Estimated levels of official error in Social Fund payments

	2007	2008	2009	2010	2011
Overpayments	£1.5m	£1.2m	£2.4m	£1.0m	£1.5m
% of relevant payments	2.0%	1.6%	3.0%	1.1%	1.8%
% of total payments	1.2%	0.8%	1.4%	0.6%	1.1%
Underpayments	£0.4m	£1.3m	£1.1m	£0.8m	£0.3m
% of relevant payments	0.5%	1.6%	1.4%	0.9%	0.4%
% of total payments	0.3%	0.9%	0.7%	0.4%	0.2%
Total payments	£126.1m	£147.3m	£166.7m	£173.2m	£136.6m
Total relevant payments	£74.1m	£77.7m	£80.9m	£87.1m	£82.3m

Source: Social Fund Accounts 2007-08 to 2011-12

Footnotes:

- 1 As indicated in the SSA Annual Accounts, the estimates in both tables are quoted to the nearest £0.1m and presented with 95% confidence intervals, which include adjustments to incorporate some non-sampling sources of uncertainty.
- 2 From 2005 onwards estimates have been reported on the calendar year basis rather than the financial year.
- 3 Total payments represent all Regulated Payments and Discretionary payments.
- 4 Total relevant payments represent total payments less winter fuel payments and cold weather payments.

criteria for Crisis Loans is such that the decision to award the loan payment is subject to a larger degree of judgement and subjectivity; this may lead to a greater propensity towards official error. SSA also told me it has taken specific actions to improve the accuracy of awards made including the delivery of refresher training to front line staff and the establishment of accuracy forums where best practices can be shared. It has also strengthened guidance and desk aids have been developed to assist decision makers in determining other benefit income which may be available to meet the crisis.

5.3.13 SSA did not set a financial accuracy target for Social Fund payments in 2011-12 as it does for some other benefit payments but instead highlights that it regularly monitors the financial accuracy performance of the Social Fund. SSA also does not calculate estimates for any amounts of customer fraud or customer error that there may be within Social Fund payments. I asked SSA to explain the reasons why it does not set a financial accuracy target or estimate customer fraud or customer error and it told me that while it does measure and publish levels of financial accuracy (official error), in common with the Department for Work and Pensions it does not measure social fund customer fraud and error due to key differences in the way the benefit is administered and paid compared with other social security benefits. These differences include the fact that social fund payments generally consist of one-time payments and an

error would not generate an ongoing loss and that almost three quarters of social fund expenditure consists of budgeting and crisis loans which, by their nature, are paid back to SSA so that any error is automatically recovered.

5.3.14 Other reasons highlighted by SSA include:

- certain social fund benefits are paid primarily because the recipient receives other social security benefits which are subject to regular reviews for official error, customer error and customer fraud e.g. most winter fuel payments are paid automatically to those customers already in receipt of state pension for which the level of error is very low and fraud non-existent. Therefore the potential exposure of these payments to fraud and error is very low;
- the remainder of social fund payments comprise of discretionary payments for Community Care Grants, together with other payments for Maternity Grants and Funeral Payments. SSA's opinion is that the nature of these payments means they are less vulnerable to customer fraud and error; and
- the measurement of benefit fraud and error is complex and expensive and it is important to assess and decide which benefits should be given priority for review taking account of the relative value/risk profile of each benefit. As discussed above the SSA

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considers that social fund benefits represent a much lower risk of loss than other benefits.

5.3.15 Finally, SSA told me that because of the impending changes to the current Social Fund administration as a result of the welfare reform programme that are due to be taken forward from 2013-14, it is not practical and viable to set a Financial Accuracy target, nor complete a Benefit Review for an expenditure category that will change significantly throughout the measurement year. New processes are in development and the intention is that specific elements of social fund expenditure will be replaced through the introduction of the new Discretionary Support Scheme and other elements of the current social fund scheme will migrate to the Universal Credit regime e.g. social fund budgeting loans. Financial accuracy monitoring arrangements are under consideration for Universal Credit, and future targets will be considered for the new Discretionary Support Scheme.

Other matters – Outstanding debt balance

5.3.16 I reported in 2010-11 that I had concerns over the accuracy of the debt balance, and in particular the alignment journal of £0.5 million processed by SSA to reconcile the year end debt balance on the integrated benefit and accounting system to the detailed transactional debtor listing.

5.3.17 I note again that in 2011-12 an alignment journal has had to be processed in order to agree the debt balance in the accounts to the detailed listing of individual debtors. The alignment journal in 2011-12 amounted to £0.3 million (in 2010-11 this was £0.5 million) and I asked SSA why this alignment journal continues to occur. SSA told me it continues to progress its work with the Department for Work and Pensions in Great Britain to determine the underlying reasons and to obtain a resolution. It also told me that based on initial investigations the alignment journal is primarily required to account for timing differences between the operational Social Fund Computer System (SFCS), that processes and records Social Fund benefits at an individual customer level, and the accounting and payment system, the Central Payment System. These timing differences and the alignment journal are likely to continue while the existing SFCS and the Central Payment System are still in place. However SSA has outlined that it will continue to monitor this matter and work with DWP towards a solution. SSA has also told me that it is developing an Action Plan by 31 March 2013, and I will examine the implementation of this plan during my audit of the 2012-13 accounts.

5.3.18 I will continue to keep the alignment journal under review and consider the implications for my audit opinion should the value of this journal increase significantly.

Conclusion

5.3.19 I consider that the reported levels of estimated errors in Social Fund payments for 2011 are material and consequently I have qualified my regularity opinion on the Social Fund accounts for 2011-12. I have also reported on the alignment journal required to adjust the debt balance in the accounts to agree to the detailed listing of debtors. I would encourage SSA to seek the appropriate resolution of these issues and I will continue to monitor progress made in this area.

5.4 ILEX 2011-12

Introduction

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

Background

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

5.4.3 My 2010-11 audit identified six consultancy projects which did not have the necessary approvals from sponsor Departments and from DFP. As a result irregular expenditure of £404,687 was incurred during 2010-11 and I qualified my audit opinion on the regularity of this expenditure. My report on the irregular expenditure and other issues was considered at a meeting of the Public Accounts Committee on 25 April 2012.

Summary

5.4.4 Progress has been made by Ilex in 2011-12 in addressing the underlying management and governance issues that were highlighted in my report last year. An action plan has been developed including project management and compliance reviews which has been adopted by the Board. The Audit Committee reviews progress on a monthly basis and updates the Board. The Accounting Officers of both sponsor departments have also held monthly meetings with the Chief Executive of Ilex.

5.4.5 However a number of issues that first arose and were reported on in 2010-11 have continued to impact in 2011-12 and these have again led me to qualify my audit opinion on the regularity of expenditure:

- an issue that I identified last year relating to the poor procurement of consultancy services for the Peace Bridge is now likely to result in the disallowance of European Union

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(EU) grant funding amounting to £312,573. This funding shortfall will now have to be met by additional funding from the Northern Ireland Executive. I consider that the effect of the disallowance is irregular because it arises from ineffective controls in previous years within Ilex;

- for two projects which incurred irregular expenditure in 2010 -11 because they did not have the necessary approvals from sponsor Departments and DFP, additional expenditure has been incurred in 2011-12 giving rise to further irregular payments of £278,906; and
- in 2010 -11 I also reported that the starting salary of a new Director had not yet received the necessary approvals from the sponsor Departments and DFP. Ilex has confirmed that approval for this salary has still not been received and this has resulted in irregular spend of £23,000 in 2011-12.

5.4.6 I have also reported on a number of other issues including an update on the position regarding irregular payments made by OFMDFM on the Ilex managed project at Ebrington parade ground and continuing delays in the completion of post project evaluations. See **paragraph 3.5.3**.

Qualified Regularity opinion

Peace Bridge - Disallowed European Union Expenditure

5.4.7 In my 2010 -11 audit I reported on a business case for consultancy services to assist with the delivery of the Peace Bridge which had been approved by Ilex in February 2008 for £75,000 and awarded to the successful bidder at a cost of £63,784. This project was subsequently extended without tender and the total cost was in the region of £477,000. Ilex had previously expected that £422,600 of this expenditure would be funded by grants from the EU. However, because of the non-compliance with procurement rules it is anticipated that only £110,027 will be received in grant funding from the EU and therefore that £312,573 will be disallowed and as a result have to be met by the NI Executive.

5.4.8 It is my view that disallowance enforced by the EU is always irregular as it represents a shortfall in EU funding which will be met by the UK taxpayer and which has arisen through ineffective controls operating by the UK managing body. Therefore I have qualified my opinion in relation to the expected disallowance of £312,573.

Project expenditure without proper approvals

5.4.9 In 2010-11 I qualified my opinion in relation to payments made in respect of six projects which had not received the necessary approvals from sponsor Departments. In two of these cases payments have continued to be made and therefore the same issue has arisen in 2011-12 i.e. that the projects still do not have the necessary approvals and are very unlikely to receive such approval in the future. Consequently expenditure on these two projects during 2011-12 is irregular. Explanations of the background to each of the cases has been given in my 2010-11 report and details of the irregular expenditure on each of the projects are included in **Figure 22**.

Figure 22: Irregular Expenditure in Ilex projects

Contract	Spend prior to 2011-12 £m	2011-12 irregular spend £m
Ebrington Site – Design fees	898	222
Peace Bridge – Project Management Consultancy	420	57
TOTAL	1,318	279

Source: ILEX Financial Statements 2011-12

Director's starting salary not approved

5.4.10 As I reported last year, a new Director was appointed in September 2010 on a salary in excess of the normal expected minimum for such a post. Under the terms of its financial memorandum, Ilex should have received approval for the increased salary level from its sponsor Departments and DFP. A business case has now been resubmitted for approval for this salary but this has still not been received. As a result, the amount of salary paid in excess of the minimum is irregular and I have therefore qualified my regularity opinion in relation to this excess of £23,000.

Summary

5.4.11 The issues on which I have qualified my regularity opinion this year have all arisen from specific matters identified and reported in 2010-11 and are likely to continue to impact on my opinion for a number of years until the projects without the required approvals are completed. I am pleased to note that no new regularity issues have arisen this year and that Ilex and its sponsor departments have devoted considerable resources and energy into the ongoing action plan to address the problems that Ilex has had in previous years.

Section Five: Non-Departmental Public Bodies Accounts and Other Accounts

Other matters

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

5.4.12 As set out in Note 3 to the accounts, Ilex manages certain projects on behalf of the sponsoring Departments including the Ebrington Barracks parade ground project. I reported last year that expenditure on this project had exceeded the amounts that had been approved by DFP and as a result all expenditure on this project is now irregular. As was the case last year, I have not qualified my audit opinion on Ilex in respect of this irregularity because, although OFMDFM hold Ilex accountable for the delivery of the Ebrington project, the irregular expenditure is not recorded in Ilex's accounts. All of the irregular expenditure in 2011-12, amounting to £4.6 million, was paid for and accounted for by OFMDFM and I have already qualified my audit opinion on OFMDFM's 2011-12 accounts in respect of this matter. As previously noted in **section 3.5**, in 2012-13 the irregular expenditure amounted to £369,066. As the amount of irregular expenditure incurred in 2012-13 is not considered to be material, I decided not to qualify my audit opinion on regularity regarding this issue.

Tax and National Insurance contributions paid on home to work travel expenses claimed by non executives

5.4.13 In my 2010-11 Report I noted an issue in relation to a tax liability that arose on the Chairman's travel expenses and had been paid by Ilex. This issue of travel expenses and potential tax implications was subsequently considered by the Public Accounts Committee who made a recommendation that responsibility for payment of tax liabilities of non-executive board members should be agreed in advance of their appointment and that DFP should clarify the position regarding the tax position of travel expenses paid to non-executive board members. DFP has since written to all public sector bodies in Northern Ireland explaining the HMRC position on home to work travel expenses claimed by non-executive directors.

Post Project Evaluations

5.4.14 Public sector bodies are required to complete proportionate post project evaluations to improve decisions and learn lessons that can be applied to achieve best value for money on future projects. In my report last year, I noted that 27 post project evaluations remained outstanding and Ilex told me it expected to complete these evaluations by June 2012. I am therefore disappointed to find that the number of post project evaluations to be completed has since increased. At 30 June 2012, 91 post project evaluations

remained outstanding, including 12 with a value over £100,000. Ilex has told me that since June it has completed 27 of these evaluations and that it expected to complete a further 33 by the end of December 2012. I will review progress on this work during my audit of the 2012-13 accounts.

- 5.4.15 It is essential that these evaluations are brought up to date, particularly for projects where spending has significantly exceeded tendered costs. It is important that lessons are learned and shared within Ilex and the wider public sector. Ilex has told me that the completion of these evaluations is a priority action for the company.

Sponsor department arrangements

- 5.4.16 In 2010-11 I reported on a review by consultants that raised the need to consider streamlining the sponsoring Department relationship to improve accountability arrangements. The need for a single sponsor department was also one of the recommendations made when this matter was subsequently considered by the Public Accounts Committee. I understand that proposals have now been agreed that OFMDFM will be Ilex's single sponsor department from April 2013. I welcome this development which will improve accountability in future years.

Conclusion

- 5.4.17 The issues identified in this report arose from an earlier systemic breakdown within Ilex in the application of important spending controls. I am satisfied that Ilex has worked effectively with its sponsor departments during 2011-12 to put in place sufficient internal and governance controls to help prevent such lapses occurring again. I was therefore pleased to note that while irregular expenditure of £614,479 has continued to be incurred because of problems that have arisen in the past, no significant new failures have been identified. Nevertheless, procurement and project management risks continue to exist and I will review these areas again as part of my 2012-13 audit.

5.5 Northern Ireland Library Authority 2011-12

Introduction

- 5.5.1 Under the Libraries Act (Northern Ireland) 2008 I am required to examine, certify and report on the financial statements of the Northern Ireland Library Authority (NILA). I have qualified my audit opinion on the NILA financial statements for 2011-12 as a result of the significant doubt over the accuracy and completeness of the valuations of Stock Assets. These doubts were first identified in my audit of the 2009-10 financial statements and have remained since then.

Section Five: Non-Departmental Public Bodies Accounts and Other Accounts

Background

5.5.2 NILA has included in its financial statements Stock Assets (Note 12) with a carrying amount of £12.9 million to reflect a valuation by professional valuers in 2006. Stock Assets consist of collections of rare and/or fine books and pamphlets to be retained for use by future generations because of their cultural and/or historical associations. The Education and Library Boards (ELBs) were responsible for libraries prior to the formation of NILA on 1 April 2009 but Stock Assets were not considered a material item within the financial statements of ELBs. The valuation issues that are the subject of this report arise because the Stock Asset collections, transferred to NILA from the five ELBs, are considered a material asset within the NILA financial statements.

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

5.5.4 In accordance with International Financial Reporting Standards (IFRS), and the Government Financial Reporting Manual, a valuation of Stock Assets should have been carried out in March 2011. This did not occur and the 2006 valuation has been rolled forward. In my report on the 2010-11 financial statements, I noted that NILA had informed me that a tendering exercise, completed in September 2011, would see the valuation available for March 2012.

5.5.5 During my 2011-12 audit NILA informed me that because of the scale of the revaluation exercise, it has decided to revalue only those individual books over £1,000 in value at this time. The 31 March 2012 valuation is £5,522,100 (in 2006 the equivalent books were valued at £3,728,900). A further valuation exercise is planned for 2012-13 for books below the £1,000 threshold. The valuation for Stock Assets shown in the Statement of Financial Position has not been adjusted. NILA has advised this figure will be adjusted only when the full valuation exercise has been completed. IAS 16: Property, Plant and Equipment (PPE), states: 'If an item of PPE is revalued the entire class of PPE to which that asset belongs shall be revalued'. It is not however prescriptive on the accounting treatment when a class of assets is partially revalued.

5.5.6 Whilst I acknowledge the scale of this exercise and the difficulties that NILA has encountered, it is disappointing that NILA, having carried out a partial

revaluation exercise, did not include the updated valuation in its financial statements. I note that NILA has disclosed the updated valuation in a note to the Accounts for information purposes.

5.5.7 In the Statement on Internal Control, the Accounting Officer has referred to the incompleteness and inaccuracies in the valuation of the Stock Asset collections. The valuation of the 'valuable books' portion of the Stock Assets has been completed and a value determined. A project has been established to develop coherent policies and procedures to underpin Stock Assets. As part of the project, further consideration is being given to the appropriate treatment of the remaining Stock Assets, which comprise approximately 100,000 items. This project is planned to be completed by the end of 2012-13. I will examine the outcome of this project during my audit of the 2012-13 accounts, and whilst I acknowledge NILA is taking steps to address this issue, I expect the limitation in my audit opinion to remain until the valuation issue is resolved.

5.5.8 There were no other procedures I could have undertaken as part of my audit to satisfy myself on the completeness and accuracy of these assets.

Conclusion

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

5.6 Education & Library Boards 2011-12

5.6.1 I qualified my regularity audit opinion on each of the Education and Library Board's 2011-12 accounts for two reasons:

- approval for incremental pay awards to non-teaching staff was not received until part way through the 2011-12 financial year and was not given retrospectively. Those increments paid to non-teaching staff of £3,605,000 from the 1 April 2011 to the date of approval were therefore irregular; and
- increments of £4,945,000 were also paid to teachers from September 2011 but were not approved by DFP until March 2012. While the Department of Education is responsible for processing the payment of salaries to all teachers the expenditure is recorded in the accounts of the Education and Library Boards. Details are shown in **Figure 23** (overleaf).

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Figure 23: Breakdown of salary increments paid to non-teaching and teaching staff by Education and Library Board in 2011-12

Board	Non-teaching staff (£)	Teaching staff (£)
BELB	837,000	710,000
NEELB	822,000	1,268,000
SEELB	802,000	1,020,000
SELB	799,000	1,192,000
WELB	345,000	755,000
TOTAL	3,605,000	4,945,000

Source: ELB Financial Statements 2011-12

5.6.2 The DE Accounting Officer commissioned the DE's Internal Audit to undertake a number of investigations in this area to establish how these irregular payments arose and to carry out a review of the completeness of pay remits in place within the Education Sector. Internal Audit made a number of recommendations to address the underlying control issues. Since the publication of my report, management in the Department have accepted the recommendations; the key proposal being the establishment of a Pay Remit & Pensions Policy Team within the Department with responsibility for both teaching and non-teaching pay remits. During my audit of DE's 2012-13 accounts I confirmed that this team has been established, and I will continue to monitor their implementation of Internal Audit's recommendations.

5.6.3 While there is no suggestion that the payments of increments to both teaching and non-teaching staff were inappropriate it is important in the future to ensure that those responsible for the operation of pay policy do not enter into pay commitments or implement pay awards without the required approvals. I welcome the disclosure of these matters in both the DE's and Board Accounting Officers' Statements on Internal Control and the action ongoing to ensure that robust and effective arrangements are put in place so that such situations do not recur.

Section Six:
Other Matters



Section Six: Other Matters

6.1 Prompt Payment of Invoices Review

6.1.1 In my 2012 General Report I reported on the prompt payment performance of Central Government Departments, Health and Social Care Trusts and Education and Library Boards. This year I have extended my review to include an additional 22 Arm's-Length Bodies (ALBs)²⁹ sponsored by Central Government Departments and included seven more Health Sector Bodies. The report does not examine the performance of Local Councils. However, I have included data on overall Local Councils' performance for comparative purposes. The Chief Local Government Auditor will provide a more detailed analysis of Local Councils' performance in her Report which will be published later this year.

Legislation

6.1.2 Public sector organisations are required to pay invoices promptly. They are bound by the Late Payment of Commercial Debts (Interest) Act 1998 (as amended by the Late Payment of Commercial Debts Regulations 2002). This provides suppliers with a statutory right to claim interest³⁰ and

compensation on late payments of commercial debt. Payment is regarded as late if made outside the agreed terms, or 30 days after receipt of a valid invoice where no terms are agreed.

6.1.3 From 16th March 2013, an EU Directive on Combating Late Payment in Commercial Transactions³¹ was implemented through the Late Payment of Commercial Debts Regulations 2013. These regulations apply to all contracts made from 16th March 2013 onwards³². As a result of the regulations, all public bodies are required to pay suppliers for goods or services received within 30 days of receiving an undisputed invoice.

6.1.4 In 2012 I reported concerns highlighted by the Finance Minister regarding main contractors being paid promptly by public bodies but not passing payments on to subcontractors in good time. In October 2012 the Assembly approved legislation³³, which aims to protect subcontractors from unacceptable payment practices by main contractors. In January 2013 the Committee for Finance and Personnel noted its concern regarding the payment of subcontractors³⁴ and discussed potential solutions with key DFP staff. In January

29 Our definition of 'arm's-length body' includes Non-Departmental Public Bodies (NDPBs)

30 Approximately £2,500 was disclosed as having been paid in interest during 2012-13 by organisations included in this review as a result of interest and fees charged under this legislation. (Approximately £12,000 in 2011-12). This figure has greatly reduced since 2011-12. This may reflect the improved prompt payment performance across most sectors. However, it may also result from individual creditors being reluctant to pursue public organisations for interest on late payments of debt.

31 EU Directive 2011/7/EU

32 DAO (DFP) 04/13

33 updating the Constructions Contracts (Northern Ireland Order) 1997

34 Official Report for the Committee for Finance and Personnel, 16th January 2013, <http://www.niassembly.gov.uk/Assembly-Business/Official-Report/Committee-Minutes-of-Evidence/Session-2012-2013/January-2013/Prompt-Payment-and-Construction-Contracts-DFP-Briefing/>

2013 the Finance Minister announced the introduction of Project Bank Accounts³⁵ for government construction contracts awarded by Central Procurement Directorate. From January 2013 these accounts have formed part of the conditions for contracts with an estimated value of £1 million and over and where there is a significant subcontracting element. I believe that this is a positive measure by the government to tackle the issue of prompt payment through supply chains.

Disclosure of Performance

6.1.5 Central Government bodies have been required to disclose details of their payment practice policy and annual payment performance of paying valid invoices within 30 days of receipt since 1998. Northern Ireland has not followed the Budget 2010 announcement that all central government departments should aim to pay 80 per cent of all undisputed invoices within five days³⁶. However, a 10 day administrative target, in addition to the 30 day target, was introduced by the Finance Minister in 2008 as a commitment to speed up the payments process. This requires all Central Government Departments, Agencies and Non-Departmental Public Bodies (NDPBs) to pay suppliers, where possible, within 10 working days of receiving a valid invoice.

Summary of Findings

- 6.1.6 In 2012-13 the central government public bodies examined in this report processed over 2.6 million invoices to suppliers, which was similar to the number of invoices processed by those bodies in 2011-12.
- 6.1.7 Prompt payment performance has improved across most sectors since I last reported on the issue in 2012. However, there is still scope for improvement by many public bodies to maximise the number of valid invoices paid within both the 30 and 10 day targets. The Executive has reiterated its commitment to paying suppliers within 10 days during 2013 and it is important that all public bodies ensure that steps are taken to identify efficiencies and approve and release valid invoices for payment without delay.
- 6.1.8 Last year I reported that prompt payment information was not being calculated and reported on a consistent basis across the public sector. My review of prompt payment information this year has found that, while there has been a slight improvement, many public sector bodies still only publish 30 day figures, others 10 day figures and some report on both.

35 A Project Bank Account is a legally ringfenced and protected bank account from which payments are made directly and simultaneously to all members of the supply chain. Department of Business, Innovation and Skills <http://news.bis.gov.uk/Press-Releases/Prompt-payment-for-UK-firms-across-Europe-6804f.aspx>

36 Paragraph 4.25 Budget 2010 (March 2010)

Section Six: Other Matters

- 6.1.9 Overall, Local Councils have reported significant improvements in paying valid invoices within the 30 day and 10 day targets. However, with an average of 37 per cent of all valid Local Council invoices being paid within 10 working days, the performance falls well behind other sectors.
- 6.1.10 Reductions in numbers of invoices being processed may be a contributory factor leading to improvements in prompt payment performance. However, we have identified instances where there have been improvements in performance despite there being an increase in invoices processed.

Overview of Northern Ireland Sectors

- 6.1.11 **Appendix 1** contains details of the methodology that should be applied by all sectors in calculating prompt

payment performance. The Appendix also includes tables summarising the performance of public bodies in the following categories;

- **Central Government Bodies** (Tables 1 to 3);
- **Arm's-Length Bodies (ALBs) funded by central government** (Tables 4 to 6);
- **Health Bodies** (Tables 7 to 9); and
- **Education Bodies** (Tables 10 to 12).

Performance against 30 Day Target

- 6.1.12 The performance of Central Government bodies, ALBs, Health and Education bodies against the 30 day target is varied. The averages for each sector are set out in **Figure 24**.

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

Sector	2011-12 Sector Average ³⁷ %	2012-13 Sector Average %	Movement %
Central Government Bodies	97	97	-
ALBs	90	91	+1
Health Bodies	89	87	-2
Education Bodies	86	88	+2
Local Councils	71	81	+10

37 A number of the sector averages will differ from that reported last year. This is due to the inclusion of the additional public bodies in the review this year and 2011-12 performance of bodies being adjusted following audit of accounts

6.1.13 Central Government bodies had the best prompt payment performance in both years, paying an average of 97 per cent of valid invoices in both 2011-12 and 2012-13. Whilst there has been no improvement on the 2011-12 performance, it is reassuring that there has been no decline in performance.

6.1.14 ALBs have shown a marginal improvement, increasing the average number of valid invoices paid within 30 days to 91 per cent in 2012-13, from 90 per cent in 2011-12. Whilst individual ALBs have achieved performances similar to central government bodies, overall these bodies are processing six per cent less valid invoices within 30 days.

6.1.15 The Health and Education Sectors have reported a similar level of performance in 2012-13. However, while the

Education Sector has improved its performance to 88 per cent, the Health Sector has reported a decline in 2012-13 compared to its 30 day payment performance in 2011-12. The Health Sector expects performance to improve with the introduction of new financial systems (see the Health Section at **paragraph 6.1.44**)

6.1.16 Local Councils on average have improved on their payment performance, paying 10 per cent more valid invoices within 30 days. However, they remain the poorest performers across the sectors.

Performance against 10 Day Target

6.1.17 A comparison of the average 10 day payment performance by sector is detailed at **Figure 25**.

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

Sector	2011-12 Sector Average ^{38%}	2012-13 Sector Average %	Movement %
Central Government Bodies	88	90	+2
ALBs	72	76	+4
Health Bodies	55	56	+1
Education Bodies	55	59	+4
Local Councils	27	37	+10

38 A number of the sector averages will differ from that reported last year. This is due to the inclusion of the additional public bodies in the review this year and 2011-12 performance of bodies being adjusted following audit of accounts

Section Six: Other Matters

- 6.1.18 As with the 30 day target, Central Government bodies were once again the best performers at the 10 day target. Average performance across the sector has improved by two per cent, with an average of 90 per cent of valid invoices paid within 10 working days in 2012-13.
- 6.1.19 Central government ALBs had the second best payment performance in terms of the 10 day target in both years, improving performance against the target by four per cent between 2011-12 and 2012-13 to 76 per cent. The 10 day performance noted by the Education bodies has increased by four per cent from 55 to 59.
- 6.1.20 Whilst the Health Sector showed a decline in its performance in the 30 day target (**paragraph 6.1.15**), it showed a slight improvement in its performance against the 10 day target in 2012-13. On average 56 per cent of valid invoices were paid within 10 working days – one per cent more than in 2011-12.
- 6.1.21 Local Councils have reported a significant improvement at the 10 day target, paying 10 per cent more valid invoices within 10 days in 2012-13 than in 2011-12. However, with an average of 37 per cent of all valid Local Council invoices being paid within 10 working days, the performance falls well behind other sectors.

Central Government Bodies

Performance against 30 Day Target

- 6.1.22 The performance of each of the Central Government Bodies against the 30 day performance target is set out in **Appendix 1, Table 1**. In 2012-13 most bodies either maintained or improved on their previous year's 30 day performance, paying at least 93 per cent of valid invoices within the 30 day target. Eleven bodies paid 97 per cent or more of all valid invoices within 30 days of receipt. The Northern Ireland Assembly had the best performance, paying 99 per cent of valid invoices within 30 days.

Performance against 10 Day Target

- 6.1.23 As illustrated in **Appendix 1, Table 2**, most central government bodies improved on, or maintained their 2011-12 prompt payment performance against the 10 day target. Ten bodies paid a greater proportion of their valid invoices within the 10 day target in 2012-13 than in the previous year, with nine bodies now paying 90 per cent or more of their valid invoices within 10 days. However, three bodies experienced a decrease in their performance.

6.1.24 As in 2011-12 the Northern Ireland Assembly was the best performer paying 96 per cent or more of its valid invoices within 10 days. The most marked improvement was made by the Public Prosecution Service (PPS) which increased its percentage of valid invoices paid within 10 days by 13 per cent to 82 per cent. However, like other bodies in the lower range of performance, there is still room for performance to further improve when compared with higher performing bodies.

Number of Invoices Paid by Central Government Bodies

6.1.25 The annual number of invoices paid by each central government body is set out in **Appendix 1, Table 3**. Overall, the number of invoices paid by the sector fell by nine per cent to 233,000. All, apart from the NI Assembly and the NI Audit Office, use the services of Account NI for their financial processing. Account NI is a financial processing centre which has been in full operational mode since November 2009. DOJ and PPS began using the service in July 2012.

6.1.26 Despite being amongst the bodies with the lowest annual invoices, DHSSPS was the least efficient at paying valid invoices within both the 30 and 10 day targets. DRD and DFP were two of the bodies paying the highest number of invoices in both years, and yet were among the best performing bodies in terms of the 10 day target in 2012-13.

Arm's-Length Bodies

6.1.27 I extended my review this year to include an additional 22 Arm's-Length Bodies (ALBs) that are sponsored by central government departments. The ALBs sponsored by the Department of Health, Social Services and Public Safety (DHSSPS) and the Department of Education have been examined separately under Health Bodies (**paragraph 6.1.39 to 6.1.46**) and Education Bodies (**paragraph 6.1.47 to 6.1.57**).

6.1.28 The first point to note, and is of concern, is that despite my recommendation in this publication last year and the guidance available to ALBs, prompt payment information is still not being calculated and reported on a consistent basis. Some disclose either 30 day or 10 day figures only; some disclose performance on an 'average payment days' basis; with one organisation, the NI Transport Holding Company, disclosing no details of its performance in its Annual Report.

6.1.29 The letter issued to Accounting Officers in March 2013 (DAO (DFP) 4/13) has clearly set out a requirement for the disclosure of 30 day and 10 day prompt payment performance by all Departments, ALBs and NDPBs. It is important that this guidance is followed and that performance is consistently reported.

Section Six: Other Matters

Performance against 30 Day Target

- 6.1.30 The 2011-12 and 2012-13 performance of the ALBs selected for review is summarised in **Appendix 1, Table 4**.
- 6.1.31 It is encouraging to report that most bodies included in the review maintained or improved their previous year's 30 day performance, with 14 bodies paying more than 95 per cent of their valid invoices within 30 days in 2012-13. There were significant improvements recorded for the Agri-Food and Biosciences Institute (+15 per cent) and the Belfast Metropolitan College (+14 per cent). The Arts Council had the best performance paying 100 per cent of valid invoices within the 30 day target in both 2011-12 and 2012-13.
- 6.1.32 Whilst some bodies have shown signs of improvement, there are some significant downturns, with Northern Regional College dropping by 11 per cent on the previous year, paying 66 per cent of its valid invoices within 30 days. The Southern Regional College has also seen its performance drop by eight per cent to 81 per cent.
- 6.1.33 The six Further Education Colleges, sponsored by the Department for Employment and Learning, have reported a varied performance despite being in the same sector and similar line of business. I am concerned at the poor levels of performance, with the 30 day performance ranging from 66 per cent in the Northern Regional College to 94

per cent in the North West Regional College. The performance of Belfast Metropolitan College improved by 14 per cent in the period, going from paying 60 per cent of valid invoices within 30 days in 2011-12 to 74 per cent in 2012-13. However, its performance, and that of other Further Education Colleges still falls well short of the performance reported by other ALBs and by central government bodies.

Performance against 10 Day Target

- 6.1.34 The percentage of valid invoices paid by the ALBs within 10 working days is summarised at **Appendix 1, Table 5**.
- 6.1.35 As in 2011-12 the Northern Ireland Legal Services Commission was the best performer paying 99 per cent or more of its valid invoices within 10 days. The most marked improvements were made by National Museums and Galleries NI and the Northern Ireland Library Authority which increased their percentage of valid invoices paid within 10 days by 15 per cent. The Northern Ireland Local Government Officers' Superannuation Committee also showed a significant improvement of 14 per cent, now paying 93 per cent of its valid invoices within 10 days.
- 6.1.36 Most ALBs improved on, or maintained their 2011-12 prompt payment performance. Twelve of the 22 bodies reviewed paid a greater proportion of their valid invoices within the 10 day target in 2012-13 than in the previous

year, with eleven bodies now paying 90 per cent or more of their valid invoices within 10 days. However, five of the bodies reviewed experienced a decrease in their performance.

- 6.1.37 A significant challenge for the Regional Colleges is to improve performance in paying valid invoices within 10 days, most notably the Northern Regional College having paid only 15 per cent of its valid invoices within 10 days in 2012-13 and the Southwest College which could not provide the data.

Recommendation

We recommend that the Department for Employment and Learning should undertake a review of the systems currently operating across the six Further Education Colleges to identify the factors contributing to the lower prompt payment performance of some colleges against other sectors and put in place measures to improve performance.

Number of Invoices Paid by Arm's-Length Bodies

- 6.1.38 The annual number of invoices paid by each ALB is set out in **Appendix 1, Table 6**. Overall, the number of invoices paid by the sector increased by three per cent to 929,000.

Health Bodies

- 6.1.39 Guidance issued by DHSSPS in 2011³⁹ reminded all of its ALBs to report prompt

payment compliance on the basis of payment "within 30 days or other agreed terms" and also to use this basis for reporting payment performance in the annual accounts. Until March 2013 the HSC Trusts operated a payment term of "end of month following", therefore when reporting their prompt payment figures for "30 days or other agreed terms", invoices can be included which were paid within 30 and 61 days.

- 6.1.40 In 2012 I recommended that DHSSPS should ensure that any new financial systems introduced within the HSC Trusts are capable of making payments in line with the government prompt payment commitment. I also recommended that DHSSPS review its prompt payment targets for the HSC Trusts and the terms of some contracts that permitted payments to be made up to 61 days after receipt of a valid invoice. Since my report last year DHSSPS has been introducing new financial systems in all HSC bodies. The new systems went live in September 2013 and will be capable of making payments in line with government prompt payment targets. The main supply contracts used by HSC bodies to take account of the new legislation have also been amended. New legislation effective from 16th March 2013 requires all public authorities to pay suppliers within 30 calendar days of receipt of an undisputed invoice⁴⁰.

39 HSC (F) 04/11: Prompt Payment Compliance

40 DAO (DFP) 04/13

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Performance against 30 Day Target

- 6.1.41 As a result of the 2011 DHSSPS guidance (**paragraph 6.1.39**), the figures included in this report relating to HSC Trusts differ to those reported in the HSC Trusts' Annual Accounts. In order to allow comparison across Northern Ireland public bodies, "30 day only" statistics have been obtained directly from DHSSPS and are set out at **Appendix 1, Table 7**.
- 6.1.42 Of the 12 Health Bodies, four have maintained or improved their performance from 2011-12. However, eight out of the 12 bodies reported a decrease in the percentage of valid invoices paid within the 30 day target. The Belfast HSC Trust and the NI Ambulance Service both reported a reduction of 11 per cent of valid invoices paid within 30 days. The Northern HSC Trust, Western HSC Trust, Business Services Organisation, the HSC Board, NI Fire and Rescue Service and NI Medical and Dental Training Agency also reported a decline in the percentage of valid invoices paid within 30 days.
- 6.1.43 Despite an overall decline in performance of Health Bodies, a number have improved on their 2011-12 performance. The Public Health Agency increased the percentage of valid invoices paid within 30 days by 13 per cent from 76 per cent in 2011-12 to 89 per cent in 2012-13.

- 6.1.44 A factor that contributed to the decline in the performance across the Health Sector is the implementation of new financial systems. During 2012-13, staff at trusts were temporarily directed towards the implementation of the new finance systems as part of the Business Transformation Programme which had a direct effect on the prompt payment performance over a number of months. As stated in **paragraph 6.1.40**, DHSSPS expect new financial systems to be capable of making payments in line with meeting of government prompt payment targets.

Performance against 10 Day Target

- 6.1.45 As set out in **Appendix 1, Table 8**, the percentage of valid invoices paid within 10 working days by Health bodies is low in comparison to the performance of central government and most ALBs. Despite a number of improvements, particularly in the HSC Trusts in meeting the 10 day target, there have been some notable declines in performance. The NI Ambulance Service paid only 24 per cent of valid invoices within 10 working days in 2012-13, 12 per cent less than in 2011-12. Business Services Organisation paid 16 per cent less valid invoices in 2012-13 than in 2011-12. The NI Medical and Dental Training Agency paid 13 per cent less valid invoices within 10 working days in 2012-13 than in 2011-12. The Belfast HSC Trust also reported a decline, paying 8 per cent less valid invoices

within 10 days in 2012-13 than in 2011-12 at 39 per cent. As noted above, a factor that has contributed to the decline in the performance across the Health Sector has been the implementation of new financial systems.

Number of Invoices Paid by Health Bodies

- 6.1.46 The table at **Appendix 1, Table 9** illustrates the number of invoices paid by each Health body in 2011-12 and 2012-13. Overall the number of invoices paid across the Health Sector has increased by 3 per cent to 980,000. A contributory factor leading to improvements in performance of payment of valid invoices may have been a reduction in numbers paid; for example by the Public Health Agency, whose percentage of valid invoices paid within 10 days (**Appendix 1, Table 8**) increased from 38 per cent to 61 per cent. However, there have been improvements in the 10 day performance for Northern, South Eastern and Southern Trusts which is welcome in the context of a significant increase in the numbers of invoices paid by these Trusts in 2012-13.

Education Bodies

- 6.1.47 In my previous report I noted that the Minister of Education acknowledged delays in the Education and Library Boards meeting the prompt payment

targets⁴¹ and I recommended that the Department of Education (DE) should consider further how it can improve ELB performance and ensure that ELBs can make payments in line with government prompt payment targets.

- 6.1.48 DE introduced a number of measures including increasing its internal targets for payment of all non-disputed invoices in 30 days from 85 per cent to 97 per cent for 2012-13 and to maximise the payment of all non-disputed invoices within 10 working days. A Department-led working group was also established to investigate areas for improvement; guidance was issued to schools; and training has been provided to reiterate the requirements of prompt payment.

Performance against 30 Day Target

- 6.1.49 The 2011-12 and 2012-13 performance for DE arm's-length bodies within 30 days is summarised in **Appendix 1, Table 10**.
- 6.1.50 Overall, the performance of the Education bodies at paying valid invoices within 30 days has improved since 2011-12. All but one body, the South Eastern ELB, improved on the previous year position. Most notably, the Belfast ELB reported an eight per cent increase in 2012-13, followed closely by the NI Council for Curriculum, Examinations and Assessments who improved by six per cent.

Section Six: Other Matters

- 6.1.51 The South Eastern ELB, having been the best performing body in 2011-12 has experienced a two per cent decrease in the number of valid invoices paid within 30 days. The NI Council for Curriculum, Examinations and Assessments, the Southern ELB and the Belfast ELB were the top performers in 2012-13.
- 6.1.52 Despite an overall marked improvement, all of the ELBs have failed to meet their internal target of paying 97 per cent of undisputed invoices within 30 days.

Performance against 10 Day Target

- 6.1.53 Last year I reported that the performance of ELBs paying valid invoices within 10 working days was disappointing. While their performance is still low, all but two have improved on their 2011-12 figures. Full performance data is set out at **Appendix 1, Table 11**.
- 6.1.54 Two of the bodies in our review improved payment performance by 12 per cent in 2012-13 – the Belfast and Southern ELBs. Whilst their overall percentages of valid invoices paid within 10 working days remains low in comparison to other public sector bodies, it is encouraging that they increased the number of valid invoices paid to 54 and 60 per cent respectively in 2012-13.
- 6.1.55 In contrast, I am concerned that the measures introduced by DE have not improved the performance in the North Eastern and South Eastern ELBs which

both showed a reduction in performance in the 10 day target. Factors such as school closures over holiday periods and term-time working patterns may influence performance. However, following on from my recommendation in 2012, it is important that Education bodies should continue to build on the improvements made in 2012-13 and identify factors that have limited performance in some cases and develop plans aimed at improving performance at paying valid invoices within 10 working days.

Number of Invoices Paid by Education Bodies

- 6.1.56 The total number of invoices paid by each Education body in 2011-12 and 2012-13 has been summarised in **Appendix 1, Table 12**. Overall, there were 520,000 invoices processed, nine per cent less than 2011-12.
- 6.1.57 The NI Council for Curriculum, Examinations and Assessments had the highest percentage performance at paying invoices in 2012-13, however it also paid the fewest invoices in this period.

6.2 The Cost of Providing Loans to Northern Ireland Students

Background to the Report

6.2.1 The purpose of this short factual report is to provide information on the cost of student loans in Northern Ireland. It also provides an overview of the complex accounting and reporting arrangements required within the financial statements of the Department for Employment and Learning (the Department).

Background to Student Loans

6.2.2 The overarching policies and approach to the provision of finance to students is driven by policy set at a national level. Student Loans are provided to Northern Ireland students, while at university or college, by the Department, with the Student Loans Company (SLC) acting as an agent. Students apply to the Department through their local Student Finance NI office which is based in their local Education and Library Board (ELB). The loan contract is between the Department and the student. HM Revenue and Customs (HMRC) collect loan payments via the tax system.

6.2.3 The Student Loan Scheme is administered by the SLC which is responsible for paying the loans and keeping details of each student's account, including adding interest, sending an annual statement (once repayments have commenced) and answering any questions about

the loans. **Appendix 2** provides a background to the SLC and sets out the eligibility criteria for Student Loans and the types of loan available.

6.2.4 The cost of providing subsidised loans to Northern Ireland Students is financed by HM Treasury. It is a non-cash charge in the Department's financial statements, so any increases or decreases in the costs do not have a direct impact on the Northern Ireland Executive's block grant, nor does the Northern Ireland Executive have discretion to divert these resources to other public services. Budget cover is provided by HM Treasury, through the Department of Finance and Personnel (DFP), enabling the Department to record, in their financial statements, the amounts owed by students and any associated costs.⁴²

Types of Loans Available

6.2.5 **Appendix 2** sets out the two types of loans available to eligible students:

- **Maintenance Loan:** the main student loan product towards living costs for full-time undergraduate students and those on initial teacher training courses; and
- **Tuition Fee Loan:** a non-financially assessed student loan product to meet the cost of tuition fees, payable to the Higher Education provider.

42 These costs include subsidising and issuing costs at a reduced rate as well as any default charges. It also includes the opportunity cost of the financing.

Section Six: Other Matters

Methods of financing loans

6.2.6 These loans are financed in one of two ways and are included in the Department's financial statements. Further details on the terms and operation of these loans are contained in **Appendix 2**. In summary these are:

- **Mortgage Style Loans:** This was a low interest loan issued during the period 1990-1998, when student loans were initially introduced to assist towards living costs.
- **Income Contingent Loans:** have been issued since September 1998. Repayments begin in the April following graduation or leaving the course and are fixed at 9% of gross income, above a threshold of £15,795.

6.2.7 At a national level, the UK Government is continuing to assess how best to manage its holding of current and future loans, including the potential to realise a value for the taxpayer from the sale of its portfolio. The Department is part of a project taking this forward, led by the Department for Business, Innovation and Skills (BIS) and involving all devolved administrations. BIS launched a sale process on 26th March 2013 for the remaining mortgage style loans. All potential buyers will be assessed against a strict set of criteria and a sale will only proceed if value for money for the

taxpayer and borrower is achieved and protections, consistent with the law, are assured.

Costs of Issuing and financing loans

6.2.8 The costs recorded in the Department's financial statements of issuing and holding Mortgage Style and Income Contingent loans for the six years ended 31 March 2013 are summarised in **Figure 26**. There are three key elements that make up the movement each year on the loan balance; annual amounts paid out as new loans; repayments received; and interest and charges added or interest subsidies and bad debt adjustments applied.

Figure 26: Costs of Issuing and Holding of Student Loans

	2007-08 £m	2008-09 £m	2009-10 £m	2010-11 £m	2011-12 £m	2012-13 £m	6 year total ⁵ £m
Opening Balance	650	-	-	-	-	-	650
New loans issued	168	188	214	222	235	198	1,224
Repayments (principal & interest)	-35	-44	-44	-54	-42	-63	-282
Interest & Charges to the Department							
Effective Interest added to loans	27	62 ¹	28 ²	73	95	59	346
Deferment & Default charges	-15	-16	-18	-24	-39	-25	-136
Interest Subsidy	-19	-41	-52	-67	-96	-227 ³	-504
Other	0	0	0	0	15 ⁴	0	15
Total Net Interest & Charges	-7	5	-42	-18	-25	-193	-279
Closing value of Student Loans at 31 March	776	925	1,053	1,203	1,371	1,313	-

Source: Department for Employment and Learning financial statements

Footnotes

- 1 Interest figure increased in 2008-09 due to a rise in the RPI rate.
- 2 Interest figure decreased in 2009-10 because of a steep fall in the RPI rate.
- 3 One-off charge of £187m included in Interest subsidy as a result of the switch to the new Student Loan Repayment Model.
- 4 Prior period adjustment to update the value of the mortgage style loans.
- 5 Figures may not total due to roundings.

Section Six: Other Matters

Student Loan Balance

- 6.2.9 The Student Loan Balance is the largest asset on the Department's accounts and has been steadily increasing as settlement of the debt is a long-term proposition. National figures are not available yet for 2012-13, however the value of the loan balance repayable by UK students as a whole as at 31 March 2012 was £33.1 billion. The amount recorded in the Department's financial statements, as repayable by Northern Ireland students at the end of March 2013 was £1.3 billion.
- 6.2.10 Over 97 per cent of the value of loans owed by students in Northern Ireland are Income Contingent Loans. Amounts repayable by students to the SLC in respect of mortgage style loans (which ceased in 1998) represent £40 million of the total balance as at 31 March 2013, representing approximately 2.1 per cent of the Student Loan balance⁴³.
- 6.2.11 The closing value of loans recorded at the end of March 2013 has increased by £663 million over the six year period⁴⁴. This is primarily due to the uptake of loan products by an increasing number of students, as well as the time which it takes to repay these long term loans. The slight decrease in balance in 2012-13 on the prior year was due to improvements in the financial model and a one-off decrease of new loans recorded due to a change in entitlement rules.

- 6.2.12 The decrease in new loans recorded in 2012-13 was as a result of a change in the timing of entitlement rules. The impact of this one-off change moves 50 per cent of the total loans issued from 2012-13 into 2013-14.
- 6.2.13 Repayment of loans over the six year period totals £282 million.

Interest and Charges to the Department

- 6.2.14 The total net interest and charges to the Department for the six year period to March 2013 was £504 million. This represents the interest earned on the loans, less adjustments for write-offs and the cost of subsidising the loans. It is a non-cash charge in the Department's financial statements.

Effective Interest added to loans

- 6.2.15 The Department accounts for the effective interest earned on the student loans as income. This is a requirement to show a constant rate of return on the carrying amount of the loans in the accounts and is based on the Retail Price Index (RPI) and the HM Treasury discount rate (long term cost of borrowing)⁴⁵; **see Figure 27**. It is important to note that this differs from the interest charged to students on their loan balance, as it allows for inflation etc. Over the six year period to 2012-13 this has increased the value of the loans by £346 million.

43 Sourced from the Department's Statement of Financial Position in its 2012-13 accounts. The anticipated amount recoverable reflected in the Department's financial statements was £8 million (0.6 per cent of all NI Loans)

44 This is the Gross value of balances repayable by students

45 It is calculated as $(1 + \text{discount rate}) \times (1 + \text{RPI}) - 1$

Figure 27: Effective Interest Rate

Effective Interest Rate	2007-08 %	2008-09 %	2009-10 %	2010-11 %	2011-12 %	2012-13 %
HMT discount rate	2.20	2.20	2.20	2.20	2.20	2.20
Retail Price Index ⁴⁶	2.80	5.50	1.30	4.60	5.60	2.60
Headline Rate	5.06	7.82	3.53	6.90	7.92	4.86

Source: Department for Employment and Learning

Deferment & Default charge

6.2.16 The value of student loans issued is also adjusted by a subsidy, which is based on an estimate of the future cost of write-offs. This is the 'deferment and default' impairment. It reflects the fact that not all of the loans issued will be recoverable due to failure to reach the income threshold, death, disability or age of the student. Over the six year period to 2012-13 these write-offs have decreased the value of the total loan balance by £136 million.

Interest Subsidy

6.2.17 Accounting rules require the Department to show financial assets, such as student loans, at 'amortised cost' in its accounts. This means that the value of the loan is adjusted downwards to allow for the impact of inflation and the cost of issuing the loans at a reduced rate of interest (interest subsidy impairment). In 2005 there was a one-off increase of £187 million included in interest subsidy as a

result of the introduction of an enhanced version of the Student Loans Repayment Model (SLRM) developed by BIS (paragraphs 6.2.18 to 6.2.20).

A financial model is used to calculate the interest subsidy and deferment and default subsidy

6.2.18 The financial model used to forecast the Interest Subsidy and Deferment & Default subsidy is known as the Student Loan Repayment Model (SLRM). The model was developed at a national level in 2004 by external consultants, with input from each of the devolved administrations. It was taken in-house by BIS in 2005 and each year BIS passes the latest version of the SLRM to the devolved administrations.

6.2.19 There are a number of variables which will impact on the level of provisions to be applied against the loan balance. These include, student numbers, age, gender, type of qualification, salary rates, earnings growth rates, interest

46 RPI(x) was used up to 2009-10 and RPI was used from 2010-11 onwards. RPI/RPI(x) is taken from September each year (being the mid-point of the financial year)

Section Six: Other Matters

rates, unemployment, migration, death, and disability etc. Due to the complexity of this exercise, a financial model is required to calculate the subsidy figures.

- 6.2.20 After the model has been checked for completeness, accuracy, and sorted by devolved administration, the enrolment data is updated by the departmental statisticians using information from the Higher Education Statistics Agency. The model is nationalised for Northern Ireland by updating enrolment data and information specific to the Northern Ireland students, provided by the Student Loans Company.

Changes in 2012-13 with the introduction of the new Student Loan Repayment Model (SLRM)

- 6.2.21 During 2012-13 the Department worked with BIS and the other devolved administrations in order to adapt the new enhanced version of the national SLRM to ensure that it would be ready for use by each individual administration. This allowed the Department to improve its financial model, including updating assumptions and calculations for changes in policies and economic conditions. It is anticipated that modelling will be carried out using the Labour Force Survey⁴⁷ for each of the devolved administrations that will allow a more accurate reflection of each of the specific circumstances (especially income) and current conditions for each Department.

Governance Arrangements

- 6.2.22 There is a Memorandum of Understanding (MoU) in place between BIS and the devolved administrations, including the Department, who account for the loan book in their financial statements. The SLC administer the loan book and HMRC collect payments via the tax system. The MoU sets out the responsibilities of all parties and contains performance targets and indicators, which are revised annually. The Accounting Officers of HMRC and the SLC report quarterly to BIS's Accounting Officer on progress towards agreed targets and performance indicators.
- 6.2.23 The Student Finance Branch (SFB) within DEL acts as the point of contact between the Department and the SLC. They liaise on a regular basis to ensure that the assumptions used in calculating the student loans values are accurate. Each quarter the SLC provides SFB with a report which is a record of all the DEL transactions recorded in the SLC financial system. This is reconciled to the Department's records of payments made and repayments received in year.
- 6.2.24 The SLC Audit Committee minutes and papers are passed to the SFB and to the Department's Internal Auditor, who review the papers and findings. Once these are reviewed, SFB communicates with SLC on any issues it wishes to raise.

47 The Labour Force Survey is a survey of the employment circumstances of the UK population.

6.2.25 At the end of the financial year the SLC's External Auditor provides an assurance to the Department on the domicile split of their loan book. The domicile split is used to record the split of the public sector loan book between the devolved administrations as recorded on their database and in their financial accounts between the funding bodies. This figure is agreed with the Department and provides assurance that the figure recorded in their accounts is accurate.

Appendix 1

Methodology for calculating prompt payment and performance of public bodies

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

$$(a / b) \times 100$$

Where:

- a** = Number of invoices paid within X days of receipt of a valid invoice
(where X is 30 calendar days or 10 working days)
- b** = Total number of valid invoices paid

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Appendix 1: Central Government Bodies

Table 1
Percentage of valid invoices paid within 30 Calendar Days by Central Government Bodies

	Invoices Paid within 30 Days 2011-12 (%)	Invoices Paid Within 30 days 2012-13 (%)	Movement (+/-) (%)
DARD	96	97	+1
DCAL	98	98	-
DE	98	98	-
DEL	96	96	-
DETI	98	98	-
DFP	96	98	+2
DHSSPS	94	94	-
DoE	96	98	+2
DOJ	99	98	-1
DRD	98	98	-
DSD	98	98	-
NI Assembly	99	99	-
NI Audit Office	96	98	+2
OFMDFM	95	96	+2
PPS	95	95	-

Source: 2011-12: Annual resource accounts

2012-13 Department data taken from Account NI Payment Performance Table:

http://www.accountni.dfpni.gov.uk/nics_prompt_payment_table_2012-2013_march_2013.pdf

Notes:

DOJ, PPS, NIAO and NIA information taken from Annual Accounts.

OFMDFM values reflect those recorded in the Annual Accounts. For part of the year the Department acted as a payment agent, making payments on behalf of the newly formed Victims and Survivors Service (VSS). The performance results do not include VSS invoices.

Appendix 1: Central Government Bodies

Table 2
Percentage of valid invoices paid within 10 working days by Central Government bodies

	Invoices paid within 10 working days 2011-12 (%)	Invoices paid within 10 working days 2012-13 (%)	Movement (+/-) (%)
DARD	86	89	+3
DCAL	92	94	+2
DE	93	92	-1
DEL	88	88	-
DETI	92	91	-1
DFP	90	94	+4
DHSSPS	79	83	+4
DoE	88	93	+5
DOJ	93	89	-4
DRD	93	94	+1
DSD	92	92	-
NI Assembly	95	96	+1
NI Audit Office	85	92	+7
OFMDFM	83	85	+2
PPS	69	82	+13

Source: Department data taken from Account NI Payment Performance Table:
http://www.accountni.dfpni.gov.uk/nics_prompt_payment_table_2012-2013_march_2013.pdf

Notes:

DOJ, PPS, NIAO and NIA information taken from Annual Accounts.

OFMDFM values reflect those recorded in the Annual Accounts. For part of the year the Department acted as a payment agent, making payments on behalf of the newly formed Victims and Survivors Service (VSS). The performance results do not include VSS invoices.

Table 3**Total number of invoices paid by Central Government bodies in 2011-12 and 2012-13**

	Invoices paid in 2011-12	Invoices paid in 2012-13	Movement (+/-) (%)
DARD	29,245	27,580	-6
DCAL	4,160	4,016	-3
DE	3,524	2,818	-20
DEL	8,612	7,489	-13
DETI	4,468	3,650	-18
DFP	42,464	38,619	-9
DHSSPS	6,587	4,219	-36
DoE	29,321	27,468	-6
DOJ	46,769	43,336	-7
DRD	37,093	32,898	-11
DSD	15,152	13,950	-8
NI Assembly	9,700	10,129	+4
NI Audit Office	201	191	-5
OFMDFM	6,026	6,075	+1
PPS	12,924	10,151	-21
Total	256,246	232,589	-9

Source: Account NI Prompt Payment Tables.

Notes:

Data from DOJ, NI Assembly, NIAO and PPS direct from Finance Teams. OFMDFM values reflect those recorded in the Annual Accounts. For part of the year the Department acted as a payment agent, making payments on behalf of the newly formed Victims and Survivors Service (VSS). The performance results do not include VSS invoices.

Appendix 1: Arm's-Length Bodies

Table 4
Percentage of valid invoices paid within 30 Calendar Days by Arm's-Length Bodies

Dept	ALB	Invoices paid within 30 days 2011-12 (%)	Invoices paid within 30 days 2012-13 (%)	Movement (+/-) (%)
DARD	Agri-Food and Biosciences Institute	78	93	+15
DCAL	Arts Council NI	100	100	-
	National Museums and Galleries NI	99	99	-
	NI Library Authority	97	98	+1
	Sports Council NI	99	99	-
DEL	Belfast Metropolitan College	60	74	+14
	Northern Regional College	77	66	-11
	North West Regional College	92	94	+2
	Southern Regional College	89	81	-8
	South Eastern Regional College	78	76	-2
	South West College	59	68	+9
DETI	Invest NI	97	96	-1
	NI Tourist Board	94	95	+1
DOE	Driver and Vehicle Agency – Licensing	99	98	-1
	Driver and Vehicle Agency - Testing	96	98	+2
	Local Government Officers' Superannuation Committee ¹	96	98	+2
DOJ	NI Legal Services Commission	100	99	-1
	NI Probation Board	99	96	-3
	Police Service of Northern Ireland	97	99	+2
DRD	NI Transport Holding Company	97	96	-1
	NI Water	91	93	+2
DSD	NI Housing Executive	96	97	+1

Source: Annual accounts and information from Finance Teams

Note 1: 2011/12 NILGOSC figures calculated from invoice date rather than the date the invoice was received.

Table 5
Percentage of valid invoices paid within 10 Working Days by Arm's-Length Bodies

Dept	ALB	Invoices paid within 10 days 2011-12 (%)	Invoices paid within 10 days 2012-13 (%)	Movement (+/-) (%)
DARD	Agri-Food and Biosciences Institute	45	54	+9
DCAL	Arts Council NI	97	95	-2
	National Museums and Galleries NI	77	92	+15
	NI Library Authority	72	87	+15
	Sports Council NI	91	91	-
DEL	Belfast Metropolitan College	28	41	+13
	Northern Regional College	20	15	-5
	North West Regional College	61	70	+9
	Southern Regional College	34	30	-4
	South Eastern Regional College	42	42	-
	South West College	Not Available	Not Available	-
DETI	Invest NI	91	91	-
	NI Tourist Board	81	92	+11
DOE	Driver and Vehicle Agency – Licensing	95	93	-2
	Driver and Vehicle Agency - Testing	87	92	+5
	Local Government Officers' Superannuation Committee ²	79	93	+14
DOJ	NI Legal Services Commission	98	99	+1
	NI Probation Board	79	79	-
	Police Service of Northern Ireland	89	93	+4
DRD	NI Transport Holding Company	85	83	-2
	NI Water ¹	73	76	+3
DSD	NI Housing Executive ³	91	92	+1

Source: Annual accounts and information from Finance Teams

Note 1: NIW figures calculated on a calendar day basis. NIW estimate that these figures would increase by 4-5 per cent if reported on working day basis.

Note 2: 2011/12 NILGOSC figures calculated from invoice date rather than the date the invoice was received

Note 3: Figures reported by NIHE relate to goods and services invoices only.

Appendix 1: Arm's-Length Bodies

Table 6

Total number of invoices paid by ALBs in 2011-12 and 2012-13

Dept	ALB	Invoices paid in 2011-12	Invoices paid in 2012-13	Movement (+/-) (%)
DARD	Agri-Food and Biosciences Institute	13,218	14,474	+10
DCAL	Arts Council NI	892	1,222	+37
	National Museums and Galleries NI	5,642	4,733	-16
	NI Library Authority	26,276	22,961	-13
	Sports Council NI	2,286	2,134	-7
DEL	Belfast Metropolitan College	12,402	13,246	+7
	Northern Regional College	10,945	11,071	+1
	North West Regional College	10,513	10,609	+1
	Southern Regional College	12,374	12,833	+4
	South Eastern Regional College	13,402	12,540	-6
	South West College	14,690	16,050	+9
DETI	Invest NI	6,789	7,517	+11
	NI Tourist Board	5,723	5,320	-7
DOE	Driver and Vehicle Agency – Licensing	4,196	3,002	-28
	Driver and Vehicle Agency - Testing	6,600	5,944	-10
	Local Government Officers' Superannuation Committee	1,019	1,080	+6
DOJ	NI Legal Services Commission	1,489	749	-50
	NI Probation Board	6,804	5,222	-23
	Police Service of Northern Ireland	96,026	94,095	-2
DRD	NI Transport Holding Company	57,396	59,516	+4
	NI Water	37,065	33,492	-10
DSD	NI Housing Executive	559,929	591,249	+6
	Totals	905,676	929,059	+3

Note: Figures reported by NIHE relate to goods and services invoices only.

Appendix 1: Health Bodies

Table 7

Percentage of valid invoices paid within 30 calendar days by Health Bodies⁴⁸

	Invoices paid in 30 days only 2011-12 (%)	Invoices paid in 30 days only 2012-13 (%)	Movement (+/-) (%)
Belfast HSC Trust	87	76	-11
Northern HSC Trust	88	85	-3
South Eastern HSC Trust	86	87	+1
Southern HSC Trust	82	84	+2
Western HSC Trust	93	91	-2
NI Ambulance Service	92	81	-11
Business Services Organisation	92	86	-6
HSC Board	82	80	-2
NI Blood Transfusion	96	96	-
NI Fire and Rescue Service	95	94	-1
NI Medical & Dental Training Agency	98	96	-2
Public Health Agency	76	89	+13

Source: DHSSPS Financial Management Team

48 Data shows percentage of non-HSC invoices paid within 30 days, therefore inter-health trust invoices are not included in the statistics.

Appendix 1: Health Bodies

Table 8

Percentage of valid invoices paid within 10 working days by Health Bodies⁴⁹

	Invoices paid within 10 working days 2011-12 ⁵⁰ (%)	Invoices paid within 10 working days 2012-13 (%)	Movement (+/-) (%)
Belfast HSC Trust	47	39	-8
Northern HSC Trust	36	45	+9
South Eastern HSC Trust	41	50	+9
Southern HSC Trust	44	48	+4
Western HSC Trust	59	64	+5
NI Ambulance Service	36	24	-12
Business Services Organisation	66	50	-16
HSC Board ¹	43	52	+9
NI Blood Transfusion	93	93	-
NI Fire and Rescue Service	81	80	-1
NI Medical & Dental Training Agency	79	66	-13
Public Health Agency ¹	38	61	+23

Source: 2011-12 figures as per prior year comparative in final 2012-13 accounts, with the exception of Business Services Organisation, Public Health Agency and HSC Board which were provided by DHSSPS Financial Management Unit

Note 1: 2012-13 figure for HSC Board and Public Health Agency only relates to invoices between 1/11/12 to 31/03/13 following the introduction of a new financial system

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

50 A number of the sector averages will differ from that reported last year. This is due to the 2011-12 performance of bodies being adjusted following audit of accounts.

Table 9**Total number of invoices paid by Health Bodies in 2011-12 and 2012-13**

	Number of Invoices Paid in 2011-12	Number of Invoices Paid in 2012-13	Movement (+/-) (%)
Belfast HSC Trust	372,709	365,366	-2
Northern HSC Trust	135,096	144,344	+7
South Eastern HSC Trust	139,258	148,914	+7
Southern HSC Trust	114,327	123,324	+8
Western HSC Trust	104,032	119,570	+15
NI Ambulance Service	15,081	14,690	-3
Business Services Organisation	21,875	23,516	+8
HSC Board	16,896	15,018	-11
NI Blood Transfusion	3,224	3,033	-6
NI Fire and Rescue Service	13,567	12,163	-10
NI Medical & Dental Training Agency	2,407	2,535	+5
Public Health Agency	10,851	7,413	-32
Total	949,323	979,886	+3

Source: DHSSPS Financial Management Team and Annual Accounts

Appendix 1: Education Bodies

Table 10

Percentage of valid invoices paid within 30 calendar days by Education Bodies

	Invoices paid within 30 days 2011-12 (%)	Invoices paid within 30 days 2012-13 (%)	Movement (+/-) (%)
Belfast ELB	81	89	+8
North Eastern ELB	83	84	+1
South Eastern ELB	90	88	-2
Southern ELB	89	90	+1
Western ELB	85	88	+3
NI Council for Curriculum, Examinations & Assessments	85	91	+6

Source:

2011-12: www.deni.gov.uk/prompt_payment_tables_2011-2012.pdf

2012-13: www.deni.gov.uk/ndpbs_prompt_payment_table_-_2012_2013__march_2013_.pdf

Table 11

Percentage of valid invoices paid by Education Bodies within 10 working days in 2011-12 and 2012-13

	Invoices paid within 10 days 2011-12 (%)	Invoices paid within 10 days 2012-13 (%)	Movement (+/-) (%)
Belfast ELB	42	54	+12
North Eastern ELB	58	53	-5
South Eastern ELB	60	57	-3
Southern ELB	48	60	+12
Western ELB	49	53	+4
NI Council for Curriculum, Examinations & Assessments	74	80	+6

Source:

2011-12: www.deni.gov.uk/prompt_payment_tables_2011-2012.pdf

2012-13: www.deni.gov.uk/ndpbs_prompt_payment_table_-_2012_2013__march_2013_.pdf

Table 12**Total number of invoices paid by Education Bodies in 2011-12 and 2012-13**

	Number of Invoices Paid 2011-12	Number of Invoices Paid 2012-13	Movement (+/-) (%)
Belfast ELB	78,977	80,839	+2
North Eastern ELB	123,894	115,128	-7
South Eastern ELB	98,014	92,401	-6
Southern ELB	143,395	118,896	-17
Western ELB	122,162	109,312	-11
NII Council for Curriculum, Examinations & Assessments	3,461	3,319	-4
Total	569,903	519,895	-9

Source :

2011-12: www.deni.gov.uk/prompt_payment_tables_2011-12.pdf

2012-13: www.deni.gov.uk/ndpbs_prompt_payment_table_-_2012_2013__march_2013_.pdf

Appendix 2:

Background to the Student Loan Company and the Scheme

1. The Student Loans Company (SLC) was incorporated as a private limited company in 1989 and started trading in 1990, to provide loans and grants to students in universities and colleges in the UK. It issues loans on behalf of the Departments for Employment and Learning in Northern Ireland, Business, Innovation and Skills in England, Education and Lifelong Learning in Scotland and Education and Skills in Wales.
2. Previously it was jointly owned by the Secretary of State for Scotland and the Department for Business Innovation and Skills (BIS) in England. Since December 2012, BIS owns 85%, with the remaining 15% divided equally amongst Scottish Ministers, the Welsh Assembly Government and the Department for Employment and Learning in Northern Ireland. It is entirely government funded and is non-profit making. It was designated as a Non-Departmental Public Body on 1 April 1996.

Types of Loan available to Students

3. Student loans are covered by the relevant Student Support Regulations. In Northern Ireland, the conditions for Income Contingent Loans are included within the Education (Student Loans) (Repayment) Regulations (Northern Ireland) 2009 as amended.
4. To qualify for student finance as a student from Northern Ireland, you will normally need to meet all three of the conditions on residence. This means that on the first day of the academic year in which your course starts, a student must usually:
 - be ordinarily resident in Northern Ireland;
 - have been 'ordinarily resident' in the UK, the Channel Islands or the Isle of Man for the three years immediately before starting the course (and not wholly or mainly for the purpose of receiving full-time education); and
 - be a UK national or have 'settled status' in the UK (under the terms of the Immigration Act 1971).

Maintenance Loan

5. The maintenance loan is the main student loan product towards living costs for full-time undergraduate students and those on initial teacher training courses. It comprises the non-financially assessed portion which all students eligible for the loan can receive, the financially assessed portion, which depends on household income and a provision for extra weeks study, which is also financially assessed. Maximum entitlement is affected by place of residence, year of course and entitlement to other financial support. The maximum loan for Northern Ireland students for 2012 -13 is £3,750.

6. Maintenance loans are paid directly to the student in three instalments at the start of each term; in October, January and April.

- Mortgage Style Loans; and
- Income Contingent Loans.

Tuition Fee Loan

7. The tuition fee loan is a non-financially assessed student loan product to meet the cost of tuition fees. It is payable to the Higher Education (HE) provider if the student is in attendance on 1st October (25 per cent); 1st January (25 per cent); and 1st April (50 per cent) during the academic year.

8. Universities and Colleges in Northern Ireland can charge different fees for different courses up to a maximum of £3,465 for 2012 -13. This rate is set out by government each year. The maximum amount of tuition fee loan available is either the amount of tuition fees charged by the institution or the maximum set out by government, whichever is less.

9. A student may apply for a loan to cover all or part of this cost. Students are responsible for paying to the institution any fees which are not covered by the loan.

Mortgage Style Loans

11. Mortgage Style Loans were issued during the period 1990-1998 when student loans were initially introduced to assist towards living costs in the form of low interest loans. Interest on these loans is set each September, based on the Retail Price Index (RPI) for the previous March (2012/13 – 3.6 per cent). See Table 1 below.

12. Mortgage style loans are repaid by 60 monthly instalments, directly to the Student Loans Company. Repayments can be deferred if gross annual income is less than the set threshold of £28,775 for 2013 -14 (2012/13 £27,813). The system was criticised and subsequently replaced because, irrespective of the size of loan taken out, it had to be repaid in 60 months.

13. Amounts repayable by students in respect of mortgage style loans for Northern Ireland totalled £40 million as at 31 March 2013, which represents approximately 2.1 per cent of the Student Loan balance in the Department's Statement of Financial Position.

Methods of Financing Loans

10. Two types of loans are included as 'Financial Assets – Student Loans' on the Statement of Financial Position in the Department's financial statements:

Income Contingent Loans

14. Income Contingent Loans have been issued since September 1998.

Appendix 2:

Repayments begin in the April following graduation or leaving the course.

Repayments are fixed at 9 per cent of gross income above a threshold of £15,795, which means that you will pay 9 per cent of anything earned over £15,795 before tax until the loan is cleared.

15. Repayments are collected by HMRC at source, through the PAYE system. Repayments continue, depending on income, until either the loan is paid off, the graduate reaches age 65, dies or becomes permanently unfit for work. For loans taken out after 1 September

2006 the loan is cancelled 25 years after the loan first becomes available for repayment as opposed to when the graduate reaches age 65.

16. Interest on Income Contingent Repayment loans are subsidised, as students are only charged interest equivalent to the rate of inflation, or the bank of England base rate plus 1 per cent whichever is the lower. This can vary throughout the year. The RPI measure of inflation, which does not vary is fixed from the value of RPI in March (currently 1.5 per cent). See **Table 1** below.

Table 1:

Interest Charged to students

Interest Charged to Students (Academic Year)	2007-08	2008-09	2009-10	2010-11	2011-12	2012-13
Mortgage Style Loans	4.80%	3.80%	-0.40%	4.40%	5.30%	3.60%
Income Contingent Loans*	4.80%	3.80%	1.50%	1.50%	1.50%	1.50%

Source: *Department for Employment and Learning*

Notes:

*Base rate cap applied to Income Contingent Loans from 2009-10 to 2012-13, resulting in an applicable rate of Bank of England base rate plus one per cent.

RPI taken from March, immediately prior to the start of the academic year. Interest charges are revised on an academic year basis.

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