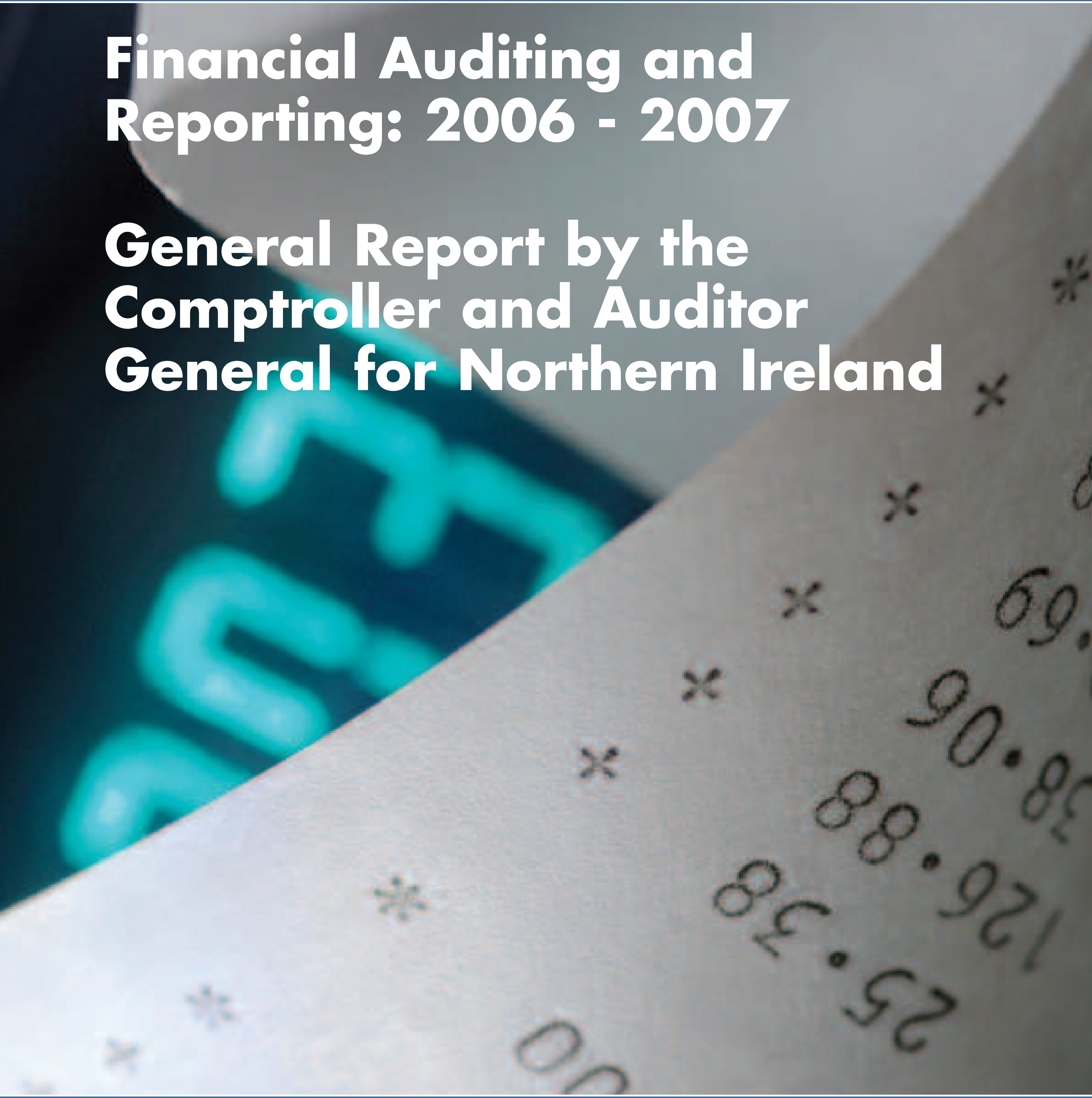
NIAO
Northern Ireland Audit Office

Financial Auditing and Reporting: 2006 - 2007

General Report by the Comptroller and Auditor General for Northern Ireland



REPORT BY THE COMPTROLLER AND AUDITOR GENERAL
NIA 193/07-08 2 July 2008

Northern Ireland Audit Office

Financial Auditing and Reporting: 2006-2007

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NIA 193/07-08 BELFAST: The Stationery Office £5.00

I present this report pursuant to Sections 10(4) and 11(3)(c) of the Government Resources and Accounts Act (Northern Ireland) 2001, with the exception of the report contents section 7 which has been prepared jointly with the Irish Comptroller and Auditor General on matters arising in relation to the audits of North/South Bodies which is presented to the Northern Ireland Assembly, in accordance with Paragraph 2.6 of Part 7 of Annex 2 to Schedule 1 of the North-South Co-Operation (Implementation Bodies) (Northern Ireland) Order 1999.

J M Dowdall CB
Comptroller and Auditor General

Northern Ireland Audit Office
2 July 2008

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

AIP	Accuracy Improvement Plan
BELB	Belfast Education and Library Board
BRO	Belfast Regeneration Office
BSP	Building Sustainable Prosperity
C&AG	Comptroller and Auditor General
CBC	Customer Billing and Contacts
CFER	Consolidated Fund Extra Receipts
CFF	Contract for Funding
CRT	Capital Realisation Taskforce
CSCS	Child Support Computer System
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety
DLA	Disability Living Allowance
DRD	Department for Regional Development
DSD	Department for Social Development
DSO	Departmental Solicitors Office
ELB	Education and Library Board
EU	European Union
FSPB	Food Safety Promotion Board
FRS	Financial Reporting Standard
GAAP	Generally Accepted Accounting Practice
GAD	Government Actuary Department
GANI	Government Accounting Northern Ireland
GoCo	Government Owned Company
HMT	Her Majesty's Treasury
HPSS	Health and Personal Social Services
LPS	Land and Property Services
LRNI	Land Registers of Northern Ireland
NAO	National Audit Office
NDPB	Non Departmental Public Body
NDVR	Non Domestic Vacant Rating
NIAO	Northern Ireland Audit Office
NICS	Northern Ireland Civil Service
NIHE	Northern Ireland Housing Executive
NIW	Northern Ireland Water Limited
NSMC	North/South Ministerial Council
NWDO	North West Development Office
OGC	Office of Government Commerce
OSNI	Ordnance Survey Northern Ireland
PAC	Public Accounts Committee
QAIU	Quality Assurance Inspection Unit
RCA	Rates Collection Agency
RCV	Regulatory Capital Value
RDO	Regional Development Office
SEUPB	Special European Union Programmes Body
SRO	Senior Responsible Officer
URCDG	Urban Regeneration and Community Development Group
VCU	Voluntary Community Unit
WELB	Western Education and Library Board
WS	Water Service

Foreword

This report to the Northern Ireland Assembly summarises the results of the financial audit work undertaken on my behalf by the Northern Ireland Audit Office, on the 2006-07 accounts.

My financial audit work enables me to provide independent assurance that the annual financial statements of the bodies concerned are properly prepared and that the income and expenditure have been applied for the purposes intended by the Assembly.

Overall, I consider the standards of financial accounting to be high. In this report I have highlighted the quality and timeliness of financial reporting. I have also summarised the qualified opinions and reports I have issued on resource accounts and other accounts for 2006-07. It must be noted that the vast majority of accounts submitted for audit are of good quality and receive an unqualified audit opinion. These are important attainments in building public confidence in issues of accountability and governance.

NIAO aims to continue to provide an efficient and effective audit service and to provide independent assurance to the Assembly and the people of Northern Ireland. In doing so I am conscious of the need to ensure that our methodologies continue to reflect best practice in professional auditing. I am pleased to report that my Office conducts its work in accordance with International Standards on Auditing (UK and Ireland).

The vision of my Office is to promote accountability and the best use of public money. In conducting my financial audit work I am therefore mindful of the need to also provide 'added value' advice to audited bodies. Section 1 of this report draws attention to some benefits that our mainstream financial audit work provides beyond the primary objective of providing independent assurance, information and advice to the Assembly on the proper accounting and use of public resources.

In conclusion, I wish to thank the staff of the Northern Ireland Audit Office for their continuing professionalism in delivery of our financial audits. I am also grateful to the staff in the Finance Divisions of the public bodies audited for their co-operation.

JM Dowdall CB

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2 July 2008

Section One:
Financial Audit and Timeliness of Reporting

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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 over the accounting periods from 2001-02 to 2006-07. Ten out of seventeen sets of resource accounts were qualified in 2001-02 (59 per cent) compared with three in 2006-07 (18 per cent). The number of qualifications reached its lowest in 2005-06 when only one was issued, for the Department for Social Development.

1.1.2 Figure 1 illustrates the number of qualifications, on resource accounts and other accounts, year on year for the accounting periods from 2001-02 to 2006-07.

1.1.3 The majority of departmental resource accounts have received an unqualified audit opinion each year. When

Figure 1: Number of Qualifications for Accounting Periods 2001-02 to 2006-07

qualifications arise, this is generally indicative of weaknesses in financial control. Such weaknesses can compromise the ability of departments to provide sound accountability to the Assembly. Figure 2 contains brief details of the three resource accounts which received qualified audit opinions for the 2006-07 financial year.

Figure 2:

Name of Public Body	Nature of the Qualification
Department of Culture, Arts and Leisure	The 2006-07 accounts were qualified due to a disagreement over the accounting treatment for the Ordnance Survey of Northern Ireland's Topographic Database – Ordnance Survey's accounts are consolidated into the Department's resource accounts. We considered the data held in the database should be capitalised and recorded in the balance sheet, but Ordnance Survey does not agree that the data meets the conditions for capitalisation.
Department for Social Development	The 2006-07 accounts regularity opinion was qualified on two counts: • material levels of fraud and error in certain benefit expenditure administered by the Department through the Social Security Agency and Northern Ireland Child Support Agency; and • weaknesses in the Department's financial control and monitoring of expenditure on Urban Regeneration and Community Development grant. Although significant progress was made during 2006-07, it was our opinion that the Department's financial controls and monitoring of expenditure in this area had still not achieved the levels of performance expected when administering public money.
Health and Personal Social Services (HPSS) Superannuation Scheme	The 2006-07 accounts were qualified on the basis of regularity arising from an excess net cash requirement. This requirement is a limit on the amount of cash that can be used in year to meet the funding needs of the Scheme. The limit on the net cash requirement was set at £4,757,000 for 2006-07. The Statement of Supply to the HPSS Superannuation Scheme 2006-07 resource accounts, however, showed a net cash requirement of £11,981,593.19, which was £7,224,593.19 (151.87 percent) in excess of the amount authorised. The excess arose mainly because of a lack of estimate cover for changes in working capital other than cash of £16.2million.

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Qualified Opinions – Other Entities

1.1.4 We qualified four sets of accounts of other entities for 2006-07 (Figure 3), which is approximately five per cent of central government audits (excluding resource accounts).

Reports on Accounts by the Comptroller and Auditor General

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

- Department of Regional Development (see Section 3);
- Land Registers of Northern Ireland (see Section 4); and
- Invest Northern Ireland (see Section 5).

Conclusion

1.1.6 The majority of departments and other public entities are producing good quality accounts for audit scrutiny which result in unqualified audit opinions. However, there are still a small number that contain inadequate audit evidence to enable us to express an unqualified audit opinion, or lead to a public interest report being attached to the accounts. There is no consistent pattern to the type of qualification arising, however, they are all

Figure 3:

Name of Public Body	Nature of the Qualification
Child Support Agency – Client Funds	The 2006-07 accounts were qualified on the basis that the C&AG was unable to determine whether the Agency maintained proper accounting records, and could not obtain all the information and explanations that were considered necessary for the purpose of the audit, therefore giving rise to a limitation of scope.
Ordnance Survey of Northern Ireland	The qualified audit opinion on the 2006-07 accounts arose out of a disagreement over the accounting treatment for the topographic database.
Social Security Agency	The opinion on the 2006-07 accounts was qualified on regularity due to the estimated material losses in the level of fraud and error in certain non-contributory and contributory social security benefits and social fund benefits.
Northern Ireland Housing Executive	The opinion on the 2006-07 accounts was qualified on regularity due to the estimated fraud and error of £12.6million within Housing Benefit as identified by the Disability, Incapacity and Benefit Security Directorate Standards Assurance Unit of the Social Security Agency.

indicative of weaknesses in internal control and compromise the entity's ability to provide sound accountability to the Assembly.

1.2 Faster Closing

1.2.1 Her Majesty's Treasury (HMT) launched an initiative in 2002 to accelerate the accounts production and audit process for departmental resource accounts. The aim of accelerating the timetable was to bring central government into line with what is accepted as general best commercial practice, and to facilitate the timely production of Whole of Government Accounts. Moreover, departments' financial management and planning will improve with the availability of more timely information.

1.2.2 In 2005 the Department of Finance & Personnel (DFP) notified Northern Ireland departments that it also intended to meet faster closing deadlines, with the aim being for all departmental resource accounts from 2007-08 onwards to be laid before the Assembly by summer recess (normally early July). In order to smooth the process in the intervening years up to 2007-08, DFP set interim deadlines to gradually bring the date for the completion of the audits of the accounts forward. At that stage each department agreed a timetable with NIAO illustrating how they intended to achieve these interim transitional deadlines.

1.2.3 DFP had set a deadline for the completion of the audits of 2006-07 resource accounts of 31st August 2007. We are pleased to report that sixteen out of eighteen resource accounts had the audit completed by 31st August 2007. One department failed to submit accounts by the agreed date with NIAO and as a consequence, the audit of this account was not completed by the set deadline. This department encountered specific difficulties that resulted in the accounts not being submitted within the timescales achieved by other departments. The audit of another department's account was delayed awaiting the resolution of two technical accounting issues.

1.2.4 NIAO is fully committed to the achievement of the faster closing deadline and has been continually working with DFP and audited bodies to overcome any difficulties encountered to help meet the deadlines. NIAO has developed a Faster Closing Strategy for use internally to support the initiative and to ensure the availability of adequate resources and that the audit approach is flexible so as to aid the attainment of the deadline.

1.2.5 NIAO believes that key to the success of Faster Closing is the buy-in from senior management within departments and recognition that accounts production is not merely a year-end activity. The production of robust and accurate management accounts is an essential requirement for good financial monitoring and the effective management of government departments.

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1.2.6 In line with the experiences of our National Audit Office colleagues and in accordance with best private sector auditing practice, NIAO continues to advocate the use of "hard close" audits where a large part of audit testing is undertaken before the end of the financial year, thereby saving time spent at the year end and reducing pressures on deadlines. This approach is essential in many cases if the summer recess deadline of 2007-08 is to be met, and is only feasible if departments have a robust management accounts function that can produce timely, accurate and complete financial statements. It is encouraging to note that "hard close" audits were possible for many of the larger departments in 2006-07 and this was extremely beneficial in meeting the deadline set.

1.2.7 Looking ahead to the 2007-08 accounts, further improvements on the speed of delivery of good quality accounts by departments will be essential to the achievement of the summer recess deadline. DFP has highlighted that one of the key challenges facing many departments in 2007-08 is the implementation of the "Account NI" common accounting system, a Northern Ireland Civil Service (NICS) wide project designed to improve accounting and reporting capabilities. Whilst DFP has assured NIAO that this system will deliver benefits in the medium term, early discussions with departments are indicating that its introduction might have an impact on achieving faster closing during the period when they are transferring across to the new system. NIAO will continue to work in partnership with departments to help achieve the benefits of faster closing.

1.3 Adding Value

1.3.1 The main benefits flowing from our financial audit work are the assurances to the Assembly that public resources are being used in the way intended and that reliance can be placed on financial statements. The 'deterrent effect' of audit cannot be measured precisely but should not be underestimated. The knowledge that accounts will be subject to rigorous and probing audit is a positive influence on the day-to-day decisions of management to observe the principles of good corporate conduct, propriety and regularity.

1.3.2 During the course of financial audit work NIAO is able to contribute towards improvements in the effective financial management and financial control within the entities which it audits. Recently the contribution was made in a number of ways; most directly, by the provision of a report to those charged with governance at the completion of the audit process with audit observations and recommendations for improvements. Most of the recommendations have been accepted and are being implemented by the many different audited bodies.

1.3.3 NIAO is also actively involved in strengthening governance in the public sector. For instance, there has been a significant increase in the number of audit committees in recent years and NIAO involvement has been of considerable added value as it has helped ensure the NIAO's presence in an important element of corporate governance.

1.3.4 The NIAO's commitment to corporate governance extends beyond simply attending these meetings, given the regular involvement of NIAO staff in workshops and presentations. Also, in 2007-08 we produced a series of short reports which have been reproduced in this general report. These are:

- European Union Structural Funds-Irregularities in Northern Ireland (see paragraph 1.4);
- Management Commentaries (see paragraph 1.5);
- Disposal of Surplus Land (see Section 6);
- NI Water Contract with Xansa for customer billing/contacts and mobile work management – compensation for deferral of domestic water charges (see Section 6); and
- Management of Non-Public School Funds (see Section 6).

1.4 European Union Structural Funds - Irregularities in Northern Ireland

1.4.1 During the year, my office was involved in a review of Irregularities in European Union (EU) Structural Funds across EU Member States. The full results of this review were reported to the National Audit Office and combined with the findings of Audit Offices in England, Wales and Scotland to produce a report on the United Kingdom member state.

1.4.2 In March 2007, I produced a Good Practice Guide on Identifying, Reporting and Following up on Irregularities in EU Structural Funds in Northern Ireland. This Guide was distributed to all Departmental Accounting Officers and Heads of Internal Audit, requesting that it was further distributed by departments to implementing bodies, as required.

1.4.3 The timetable for the review across EU Member States was such that all findings reported were up to and including 30 September 2005. At 30 September 2005 a total of 61 irregularities had been reported by Northern Ireland for the 2000-2006 funding round, the total value of which was €3.0 million.

Findings and Recommendations

1.4.4 The Good Practice Guide drew the attention of the departments to two significant findings identified in relation to fraud and to the level of responsibility given to Implementing Bodies:

- **Fraud** - During the course of my review, I found a large number of irregularities reported as a result of fraud. Of the reported irregularities examined, 82 per cent of the sample tested related to costs to which the

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beneficiary was not entitled or to cases where false claims or false supporting documentation had been submitted.

I also found many instances where reported irregularities relating to fraud had not been referred to my office, nor to the fraud unit in the Department of Finance and Personnel, in line with Government Accounting Northern Ireland (GANI); and

- **Level of responsibility given to Implementing Bodies** - Given the complex nature of the funding structures within Northern Ireland, there is a significant level of responsibility delegated to the Implementing Bodies for identifying, recording and reporting irregularities. At the time of my review, I found that a large number of the Implementing Bodies were not keeping a listing of recorded irregularities.[1]

1.4.5 The Guide made a number of recommendations regarding the on-going review and monitoring of the role of the Implementing Bodies in identifying, recording and reporting irregularities, and recommended that Accountable Bodies[2] continue to monitor the role of Implementing Bodies in order to minimise the risk that irregularities are not detected.

1.5 Management Commentaries

1.5.1 The Financial Reporting Manual (FReM) issued by the Department of Finance and Personnel requires the inclusion of a Management Commentary in the Annual Report of all bodies covered by FReM except for charitable Non-Departmental Public Bodies (NDPBs).

1.5.2 A well written Management Commentary will make the information useful to the reader of the Annual Report and provide context to the financial statements.

1.5.3 My office undertook a review of all Management Commentaries included in the 2006-07 Annual Reports of Departments. In addition, we reviewed a sample of Management Commentaries of Executive Agencies, Non-Departmental Public Bodies (NDPBs) and Health Service bodies, with the aim of covering a broad mix of non-Departmental accounts across Northern Ireland public sector bodies.

Findings and Recommendations

1.5.4 My review identified a wide variation in the degree to which departments, executive agencies and NDPBs had adhered to the requirements of FReM. The length and content of the commentaries varied greatly. Some bodies closely followed the requirements, providing considerable, and in some cases perhaps too much, detail while others provided minimal information or incomplete disclosures.

1.5.5 The findings in respect of individual bodies examined were forwarded to the relevant bodies and a Good Practice Guide prepared by my staff issued to all bodies for which I have audit responsibility.

1 See also my report NIA 117/07-08 published 15 April 2008 on the Hospitality Association of Northern Ireland.

2 Accountable bodies are all Government departments implementing BSP projects and, for PEACE II, those Government departments that are accountable for voted monies passed via grants to SEUPB to facilitate payments to projects.

1.5.6 Key points noted were:

- one of the agencies examined had not prepared a separate Management Commentary. In another instance there was an overdependence on cross-references to information contained elsewhere in the Annual Report, without any summarised information in the Management Commentary as required by FReM;

- Management Commentaries tended to be merely descriptive and as such did not provide an understanding of the development, performance and position of the body;

- although there was generally good disclosure of future developments, the impact upon financial performance and operations was not always considered;

- the impact of changes in resources available was not always considered or commented upon;

- some bodies provided suitable explanations of variances between estimate and outturn, with a breakdown of amounts making-up each variance. However, other bodies limited variance analysis to quite large amounts or were inconsistent in deciding when to provide an explanation; and

- whilst FReM encourages the preparation of a Sustainability Report to complement the Annual Report and Accounts, only one of the bodies examined had a separate section on sustainability. Where disclosed, sustainability information was included within the environmental matters section of the Commentary.

1.5.7 My Good Practice Guide recommended that all public sector bodies revisit the requirements of FReM paragraphs 7.2.9 to 7.2.20 in relation to Management Commentaries ahead of preparing their 2007-08 resource account.

Section Two:
Northern Ireland Consolidated Fund

Section Two:
Northern Ireland Consolidated Fund 2006-07

Figure 1:

	2006-07 £ million	2005-06 £ million
Receipts from the United Kingdom Government:		
Block Grant	9,518	9,030
Other revenues:		
Rates	833	785
Interest on Loans and Advances	127	150
Excess Accruing Resources	32	33
Other Receipts and Transfers	422	538
	10,932	**10,536**

Revenue Accounts

2.1.1 The total revenue paid into the Northern Ireland Consolidated Fund in 2006-07 amounted to £10,932 million analysed at Figure 1.

2.1.2 In fulfilment of my statutory duty I examined the departmental accounts of the receipts of revenue, and I checked that adequate regulations and procedures had been framed to ensure effective assessment, collection and proper allocation of revenue. I have also sample checked the correctness of the sums brought to account. I have noted a number of significant issues in relation to the Statement of Rate Levy and Collection, which have affected my ability to fulfil my statutory duty. These are detailed later in this section. I have also noted some issues in relation to amounts held in the Paymaster General Account, detailed at paragraph 2.2.6 below.

Consolidated Fund Issues

2.1.3 Issues from the Consolidated Fund fall into two categories:

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

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

Consolidated Fund Services

2.1.4 The Public Income and Expenditure Account has been published separately as a White Paper Account, (NIA 29/07-08). The account broadly distinguishes:

- issues for payments deemed to have been made out of public income for the year which includes interest on borrowings, district councils' share of revenue from rates, statutory charges on the Consolidated Fund for certain salaries and expenses, and advances to funds and bodies;
- issues for payments of a capital nature made out of borrowings which include public debt repayments, advances to funds and bodies to meet capital expenditure; and
- investments of surplus monies in the short-term money market and temporary advances for Civil Contingencies to fund urgent services on which spending by departments cannot await approval in a Supply Estimate.

2.1.5 Total issues in 2006-2007 amounted to £9,926 million compared with £8,659 million in 2005-2006. The increase in issues of £1,267 million relates to increases in amounts invested temporarily (£1,311 million) and amounts issued to district councils (£41 million). These increases are offset by decreases in the issues in respect of the redemption of public debt and borrowings (£81 million), the interest repaid on borrowings (£3 million) and advances in respect of Civil Contingencies (£1 million).

Paymaster General Account

2.1.6 The Paymaster General's Account is used as a form of suspense account for receipts passing to the Northern Ireland Consolidated Fund and for payments made from the Fund. For a number of years I have recommended to the Department of Finance and Personnel that the amounts held in the Paymaster General Account (excluding temporary investments, which are accounted for in future years) should be minimised, so that amounts held in the Public Income and Expenditure account or in Departmental Resource Accounts are not misstated. Despite previous assurances that balances would be minimised, the balance in the Paymaster General Account continues to increase. The amount held in the Paymaster General Account at 31 March 2007 was £95 million (2006: £86 million; 2005: £74 million). Most of the sums held in the Paymaster General Account relate to European Union funds received. I strongly urge DFP to address the recommendations in respect of the Paymaster General Account as soon as possible.

Section Two:
Northern Ireland Consolidated Fund 2006-07

Statement of Rate Levy and Collection 2006-07

Part 1: Introduction

2.2.1 The Rate Collection Agency[3] (RCA) is an Executive Agency of the Department of Finance and Personnel (DFP).

2.2.2 The Statement of Rate Levy and Collection, which accounts for all rate assessments billed and cash collections from ratepayers during the financial year, has been produced by the RCA in 2006-07. From 1 April 2007, the Statement of Rate Levy and Collection will be produced by the Land and Property Services (LPS).

2.2.3 The RCA is responsible for the billing and collection of rates: the district rate on behalf of 26 District Councils and the regional rate on behalf of the Department of Finance and Personnel. The RCA has direct responsibility for collecting rates on approximately 830,000 properties, including domestic and non domestic properties. The Agency is also responsible for administering the Housing Benefit Scheme for owner occupier ratepayers, and the Disabled Persons Allowance Scheme, as well as a number of other statutory rate reliefs.

2.2.4 At present, the Exchequer and Audit Act (Northern Ireland) 1921 requires me to examine accounts of receipts of revenue and 'ascertain that adequate regulations and procedures have been framed to secure effective check on assessment, collection and proper allocation of revenue'. This report brings to the Northern Ireland Assembly's attention significant matters arising from my examination of the Statement of Rate Levy and Collection for 2006-07.

Part 2: Examination of the Statement of Rate Levy and Collection 2006-07

2.2.5 A summary of rate levy and collection in the year, as presented by the Rate Collection Agency, is set out opposite.

Accountability Concerns

2.2.6 In my 2005-06 report, I highlighted that there is currently no requirement for a published, audited account of the Statement of Rate Levy and Collection to be laid before the Northern Ireland Assembly and I asked the Department of Finance and Personnel to look at the current accountability and corporate governance arrangements and to consider how these should be strengthened. The Department told me that it would, as a matter of urgency, consider the nature of the Statement of Rate Levy and Collection including the status and the legal authority under which a formal account could be prepared, as well as any associated accountability and corporate governance arrangements. I asked the Department what steps it had taken since last year to improve accountability in this area and the Department told me that a project manager has been appointed and is drawing up detailed Terms of Reference for the project, together with the timetable to prepare the Statement of Rate Levy and Collection account in accordance with current applicable accounting standards.

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

Figure 2: Statement of Rate Levy and Collection 2006-07

	2006-07 £ million	2005-06 £ million
Arrears at 1 April	48	35
Assessments during the year[4]	939	865
Refunds	11	13
Credit carried forward to next period	10	4
	1,008	**917**
Discharged during the year by:		
Credits brought forward from last period	4	3
Receipts (Note 1)	847	796
Vacancies	22	26
Vacant Rating Relief	3	3
Rebates	27	23
Allowances/Disabled Person's Allowance	6	6
Discounts	4	4
Written-off as irrecoverable	1	2
Residential Home Relief	6	6
Arrears at 31 March (Note 1)	88	48
	1,008	**917**

Note 1: Included in receipts and deducted from arrears at 31 March 2007 is £7.2 million of cash which was collected during the year, but the IT system was unable to allocate these payments received to individual ratepayer accounts at the year end (see paragraph 2.2.24 below). The Agency informed me in April 2008 that £6.7 million has now been allocated.

Source: Rate Collection Agency

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

	2006-07 £ million	2005-06 £ million
Receipts (Figure 1)	847	796
Refunds	(11)	(13)
Movement in cash account balance	(3)	2
Amounts transferred to NICF	**833**	**785**

Source: NIAO analysis

4 Assessments of £939 million in 2006-07 are made up as follows:

	£ million
Gross Assessments	1,076
De-rating	(112)
Vacant rating exemptions and reliefs	(21)
Vacancies	(26)
Vacancies - adjustment	22
	939

Section Two:
Northern Ireland Consolidated Fund 2006-07

Conclusion from my Examination of the 2006-07 Statement

2.2.7 Due to the problems noted below, I am unable to provide assurance that adequate regulations and procedures have been framed to secure effective checks on assessment, collection and proper allocation of revenue in the 2006-07 year. There are a number of significant matters arising from my examination of the Statement of Rate Levy and Collection in the 2006-07 year. If I were required to give an audit opinion on the 2006-07 Statement of Rate Levy and Collection, my opinion would be qualified and a disclaimer would be issued. A disclaimer of opinion is appropriate where 'the possible effect of a limitation on scope is so material and pervasive that the auditor has not been able to obtain sufficient appropriate audit evidence and accordingly is unable to express an opinion on the financial statements'[5]. The reasons for a disclaimer are the significant system control problems and the impact that these had on the scope of the audit.

Significant System Control Problems

Problems with the new IT system during 2006-07

2.2.8 Following a three month delay, Phase 1 of the new IT system became operational in October 2006. This new IT system, Abbacus, was introduced by the RCA to improve services in Rate Collection and Housing Benefit. Plans to introduce a new IT system were originally driven by a need to replace the outdated system previously in operation, to meet the new requirements in rating reform and to prepare for future changes and developments to improve operations and service provision. Problems with the system since its implementation have significantly impacted on operations in the area of rate collection and recovery. Subsequently, the completeness and accuracy of the Statement of Rate Levy and Collection and the availability of an adequate audit trail have also been adversely affected in the 2006-07 year.

2.2.9 It is evident that the changes introduced by the Review of Rating Reform, running concurrently with the introduction of a new IT system, significantly impacted on the development and implementation of this IT system, and subsequently on operations within the Agency. I asked the Department to comment further on the operational pressures experienced as a result of the Review of Rating Reform and specifically on how they impacted on rate collection. The Department told me that:

- *'Details of some of the rating reform proposals only became available after the deadline set by the Senior Responsible Officer (September 2006) for the finalisation of policy changes that could impact on the design and operation of the new IT system. As a result final specification of some aspects of the new IT system could not be finalised, developed and tested in time for the introduction of these reforms from April 2007 (or was*

5 International Standards on Auditing (UK and Ireland) 700, paragraph 39.

incorrectly specified, as assumptions had been made). This reform involved both the first revaluation of domestic properties in Northern Ireland for over 30 years, and the first change in the basis of domestic valuation in over 150 years.

- *Following decisions by the Government in October 2006 to propose new reforms to the domestic rating system to become effective from April 2007, a conscious decision was made to prioritise the work of the Department, the Agency and the Supplier to ensure that domestic rate bills based on capital values could be issued during April 2007. These changes themselves were not to be confirmed by the Government until days before their scheduled introduction on 1 April 2007, and this uncertainty added considerably to the scale of the challenge the Agency faced in this period.*

- *New features of the rating system included the introduction of a cap on the rateable value of domestic properties and the introduction of further enhancements to the reliefs package available to pensioner households. This required a considerable effort in both the Agency and the Department to develop the details of the new arrangements, ensure necessary supplementary legislation was drawn up and that the Agency and the Department was ready to introduce the new arrangements on 1 April 2007.*

- *Consequently, work to develop the functionality for legal recovery was suspended and it was not possible to issue court summons to those ratepayers who had failed to respond to payment reminders. Contingency plans were deployed but in most cases they relied on manual processing. There were difficulties in obtaining staff for processing rating casework and in some instances there were issues of quality. A project plan was revised and approved by the Project Board'.*

2.2.10 Problems experienced, which have directly impacted on the preparation of the 2006-07 Statement of Rate Levy and Collection include:

System functionality and specification

Some basic functionality of the new IT system has not been adequate to meet the operational needs of the Agency. Whilst plans to replace the IT system within the RCA had been in place since 2001, the priorities of rating reform and, in particular, the readiness of the Agency to deliver domestic rates bills based on capital values on 1 April 2007, became a key driver in the IT replacement project during 2006-07.

However, there is also evidence to suggest that the original specification of the system and functionality requirements proposed by the Agency were not adequate to meet the operational requirements of the Agency prior to any changes stemming from rating reforms. A

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financial specification prepared by the IT contractor, in conjunction with RCA staff, in June 2004 did not meet the requirements of the Agency. One of the deficiencies in the original financial specification is the inability of the system to provide an analysis of account balances such as arrears distinguished between domestic and non-domestic property. In February 2008, the same IT contractor was re-employed to prepare a revised financial specification. The Agency has informed me that this work is being managed by LPS.

During the period February 2005 to November 2007, the Agency told me that 80 Change Control Notes were submitted and £1.26 million paid to the contractor up to 31 December 2007 in respect of these changes. The Agency has informed me that such changes reflect, for example, new requirements for rating reform, corrections to the original specification, and other specialist support including the integration of the Housing Benefit systems. A breakdown of the change controls provided by the Agency is as follows:

- new requirements for rating reform and other unforeseen post contractual changes needed by the Agency (15) costing £566,000
- correction to original system specifications (29) costing £453,000
- specialist support e.g. data cleansing and the integration of housing benefit systems (18) costing £239,000
- no cost attributable or provided (18)

Data migration

Audit testing highlighted, and management has confirmed, that many of the problems arising from the implementation of the IT system which have had a direct impact on operations within the Agency, have been as a result of problems in the transfer of information to the new system.

Management feel that the migration exercise itself was successful, but accept that the exercise highlighted a lack of protocols around how the data was held and managed on the old system, thus leading to problems in transferring data across to the new system.

Pressure to implement system ahead of adequate testing

A test strategy was drawn up with RCA staff and consultants employed to test the system ahead of go-live. The results of testing undertaken indicated that the system was adequate to meet the needs of the Agency and to proceed to the live environment. I asked the Department why the problems which have occurred in the system since implementation were not highlighted during the testing phase. The Department told me that:

- *'initial testing was carried out on test data and following implementation in some areas this test data, with the benefit of hindsight, proved to be inadequate. Testing for the Housing*

Benefit module that is scheduled to go live in July 2008 is using live migrated data. A full dress rehearsal will also be undertaken in advance of the go live to identify any problem areas and to fine tune the Phase 3 cut over and contingency plans'.

2.2.11 Four Gateway reviews[6] have been carried out on the IT Replacement Project, including two Gateways dealing with readiness for service. Three Gateway Reviews were assessed as red, meaning that the project team must take action immediately to address the shortcomings identified in the reviews if the project is to be successfully implemented. A Gateway review will not in itself prevent problems arising, but it is the actions of management following the results of a Gateway review that are critical to the success of a project. Further details on the Gateway review process is at Appendix 1.

2.2.12 Further information relating to delays in implementation of the IT system and costs incurred are included in Part 3 of this Section.

Staff resources

2.2.13 Problems with the IT system, and the need to deploy staff to remedy these problems, impacted on the resource available within the Agency to carry out routine business operations such as collection and recovery of rates billed.

2.2.14 Each Gateway Review performed to date made recommendations to ensure that adequate and appropriately experienced staff resources were allocated to the IT replacement project to ensure its success.

System control weaknesses

2.2.15 In 2006-07 internal audit gave a limited assurance over the cash office procedures due to the ability of cashiers to remove a cash receipt entry from the system and the fact that the system reconciliation did not highlight such removals. This was compounded by an inadequate password control system.

2.2.16 A validation check on input information is a basic element of most IT systems. During our review of Disabled Persons Allowance, we found that there are currently no prompts or controls built in to the system surrounding the input of values into key data fields. In 2006-07 this resulted in a ratepayer number being incorrectly input into the value field of a rates assessment, resulting in the system calculating a Disabled Persons Allowance of £2.9 million payable to that ratepayer. This significant amount was identified as an error as part of a manual supervisory check and adjusted accordingly. However, errors of less significant value individually may go undetected by such manual controls. This system weakness is not confined to Disabled Persons Allowance only but is present across the system. The Agency should consider how the IT system parameters might be best used to enhance internal controls.

6 Gateway Reviews deliver a "peer review" in which independent practitioners from outside the programme/project use their experience and expertise to examine the progress and likelihood of successful delivery of the programme or project. They are used to provide a valuable additional perspective on the issues facing the internal team, and an external challenge to the robustness of plans and processes.

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Weaknesses in internal controls

2.2.17 Pressure on staff resources (discussed above at paragraph 2.2.12) has meant that there have been no checks performed in year to confirm the vacant status of properties. There has also been no review of individual entitlement to Disabled Persons Allowance, and no procedure has yet been introduced to ascertain details of deaths relating to individuals claiming Disabled Persons Allowance.

2.2.18 In 2006-07, internal audit provided an overall limited assurance rating to the RCA. The limited assurance rating is defined as 'Weaknesses in the system of controls are such as to put the system objectives at risk'. Two specific areas of limited assurance were noted by internal audit.

2.2.19 The first of these related to the calculation of the penny product[7], which is the statistical analysis prepared in order to arrive at the District Rate. Lack of management review of the penny product and errors in the actual calculation were amongst the findings of internal audit. The results of a follow up review in February 2008 indicated that: 'Internal audit was satisfied that the majority of recommendations [in relation to Finance and Penny Product] have been implemented'.

2.2.20 The second area of limited assurance related to the collection and recovery system. Internal audit noted that, despite previous concerns raised about the non performance of prescribed management and supervisory checks, the position had deteriorated further. The purpose of these checks is to test the accuracy of amendments to rate accounts, refunds and arrangements for delayed payments. In the absence of these checks, the Agency was therefore relying on the integrity and competence of administrative staff at a time when operational pressures were significantly heightened. Whilst recognising the concerns of management over the capabilities of the IT system at that time, internal audit noted that, regardless of the cause, necessary checks, inspections and reminder actions were not being completed.

2.2.21 In April 2008, internal audit noted that all of the recommendations made in relation to the controls in cash offices were fully implemented. However, internal audit has indicated that their overall limited level of assurance audit opinion for the 2007-08 year is unlikely to change in respect of Collection and Recovery due to problems with the collection and recovery procedures.

Scope of my work was severely limited by inadequate audit trail

Receipts and Unallocated cash at 31 March 2007

2.2.22 The Statement of Rate Levy and Collection presented by RCA includes £847 million of receipts during 2006-07. During the audit, my staff were unable to obtain an accurate listing of this amount from the new IT system which corresponded to the figure presented in the Statement of Rate

7 Previous errors in the calculation of the penny product were considered by the Committee for Finance and Personnel in 2001. 'Report on Error in the Penny Product Calculation and Review of Rating Policy'; Report 5/00 to the Northern Ireland Assembly from the Committee for Finance and Personnel.

Levy and Collection. My staff were informed by management at the Agency that this account area contains a balancing figure of £4 million and therefore a complete and accurate listing is not available. The Agency has informed me that this continues to be under review.

2.2.23 The problems with the IT system also mean that basic financial controls such as bank reconciliations were not successfully carried out during the 2006-07 or the 2007-08 years. In 2005-06 DFP told me that the Agency was taking steps to resolve outstanding issues in relation to bank reconciliations and would ensure these are brought up to date to support the 2006-07 Statement of Rate Levy and Collection and that procedures and processes are kept up to date going forward.

2.2.24 However, continued problems with the IT system during the 2006-07 year resulted in £7.2 million of unallocated cash at 31 March 2007. This is cash which was received from ratepayers during the year but which the IT system was unable to allocate to the individual ratepayer accounts on a timely basis and therefore remained 'unallocated' at the year end. The Agency has informed me at April 2008 that subsequent work has resulted in the allocation of £6.7 million.

2.2.25 Currently the Agency is still working through a large backlog of bank reconciliations dating back to April 2006. The Agency has informed me that good progress has been made, with the bulk of items for 2006-07 already reconciled. The 2007-08 reconciliations are also progressing well. The completion of both reconciliations is a priority but is dependent on the time required to deal with queries. The Agency has told me that errors in the system, migration problems and a general lack of information are preventing the timely clearance of this backlog.

2.2.26 The absence of an adequate audit trail in respect of receipts and the absence of bank reconciliations, a basic yet fundamental financial control, mean that I have been unable to fully undertake testing in the area of receipts and I am unable to verify the completeness, existence and accuracy of this significant account balance of £847 million.

Vacancies

2.2.27 In 2006-07 a total of £22 million is recorded in the Statement of Rate Levy and Collection (see Figure 1) as a deduction on assessments in respect of vacant properties. However, in conducting my testing I found that the assessments figure of £939 million is after a deduction of £26 million in respect of vacancies (see Figure 2, footnote 4). This figure of £26 million has been extracted from a vacant property listing held on the IT system. The Agency was unable to provide an explanation or reconciliation of the £4 million discrepancy between the figure in the account and the figure held in the underlying records.

2.2.28 I was unable to complete my testing of the £26 million vacant properties

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deducted from gross assessments, due to a large number of cases sampled where there was no property or no occupancy identification on the new IT system, which prevented me from tracing these cases further. Management informed me that this is due to problems in the migration of data from the old system to the new system which has resulted in incomplete details transferring onto the new IT system.

2.2.29 The Agency informed me that the £22 million disclosed in the account was calculated using a financial model and data extracted from the new rating computer system. A manual adjustment was then made to bring this into the year end account. Nevertheless, a £4 million unexplained difference remains between this entry and the amount deducted from the overall assessments figure in the account.

2.2.30 As noted above at 2.2.12, due to staff resource issues and competing priorities which led to the redeployment of staff to other duties within the Agency, there were no inspections carried out in year to verify the vacant status of the properties for which a deduction was made. Failure to perform inspections increases the risk that the level of vacancies recorded may be misstated in the 2006-07 year.

2.2.31 Due to the absence of an adequate audit trail in respect of vacant properties held on the current IT system and recorded in the Statement, I have been unable to complete my testing in this area. I am therefore unable to verify the completeness, existence and accuracy of this account balance of £22 million in the 2006-07 year.

Assessments

2.2.32 The Valuations and Lands Agency database is used to ascertain the value of properties to assess rates payable. A reconciliation carried out during 2006-07 identified differences in the number of properties listed on the Valuations and Lands Agency system and the previous RCA system. Investigation of the differences brought the number down to approximately 2,000 at March 2007. The Agency informed my staff that, currently, there is no difference between the property listings of the two systems.

2.2.33 During our audit of the 2006-07 annual accounts of the United Hospitals Trust[8] we were made aware that an element of the Braid Valley Hospital site had not been billed for rates since the 1996-97 financial year. Trust management raised this matter with the now Land and Property Services, who were pursuing recovery, and the accounts of the United Hospitals Trust were adjusted accordingly. Whilst I am content with the remedial action taken by the Agency in this instance, I am concerned as to the potential number of other properties which may not be included in the valuations database, and therefore will not be assessed for rates.

2.2.34 In light of the Braid Valley Hospital case, I asked the Department what steps it takes to ensure completeness of assessments. The Department told me that Valuation

8 From 1 April 2007, the United Hospitals Trust has become part of the Northern Health and Social Care Trust.

Directorate relies on information from local authorities and wider LPS activities and supervisory checks, as well as information from ratepayers about changes to property to maintain the accuracy of the valuation list.

2.2.35 Testing of gross assessments provided me with sufficient audit assurance over the gross assessments figures on the system. However, the absence of an adequate audit trail in respect of vacant properties held on the current IT system and my concerns over the completeness of the property listing upon which rates assessments are raised, mean I am unable to confirm completeness, existence and accuracy of this account balance of £939 million.

Other significant concerns arising from my audit work

2.2.36 In addition to the areas noted above which have had a direct limitation on the scope of my audit work, the following issues were noted as part of my audit work.

Allowances for Landlords and Agents

2.2.37 The payment of allowances to landlords and agents is essentially an incentive scheme to encourage timely payment of rates bills. This is a 7.5 per cent reduction from the rates bill of landlords and agents, awarded based on entitlement and the full payment of an issued bill by 30 September or within one month of a bill being issued by RCA. However, in the 2006-07 year, every private landlord and agent received a full discount regardless of when they paid their bill, due to the failings of the IT system.

2.2.38 Allowances totalling £5 million were paid to landlords and agents during the 2006-07 year. Lack of functionality of the new IT system meant it was not possible for Agency staff to confirm that the payment had been received within the required timeframe, and a management decision was taken to award every private landlord and agent a full allowance in year.

2.2.39 The inefficiency of the IT system in the 2006-07 year has resulted in a greater amount deducted from assessments in year than may have been entitled to under the allowances scheme. This means that less money was received in respect of assessed rates and an unknown amount of public funds may have been lost.

Arrears at 31 March 2007

2.2.40 Arrears carried forward at 31 March 2007 are £88 million, compared to £48 million at 31 March 2006 and £35 million at 31 March 2005. We note that the most recent indication of arrears at March 2008 is £130 million.

2.2.41 The Agency informed me that the significant increase in the arrears figure during 2006-07 reflects the major change programme underway in the Agency that year, including the introduction of the new IT system required to support the introduction of the new

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capital based rates system from April 2007. Problems with the new IT system and work to incorporate continuing changes in rating policy diverted significant management and staff resource during the year, which impacted on the resource available within the Agency to carry out routine arrears recovery activity throughout the year.

2.2.42 After go live in October 2006 the new system did not have the necessary functionality to issue final notices or process debt proceedings. As a result, and with Departmental agreement, priority was given to developing the IT system's ability to issue domestic rate bills based on capital values. As a result no computer generated recovery action took place during the 2006-07 financial year, with computerised recovery action unavailable from June 2006 until September 2007. This resulted in a fall in rate collection from 96.19 per cent in 2005-06 to 91.7 per cent in 2006-07 (compared with a Key Ministerial Target of 98 per cent for both years[9]) and a rise in rate arrears from £48 million to £88 million in the same years. I am concerned that this lack of system functionality and the lack of timely resolution of this problem by the Department and the Agency will now place an increased financial burden on ratepayers to repay multiple years' rates bills at one time.

2.2.43 In my 2005-06 report, the Department told me that the Agency is committed to tackling the increase in rate arrears and has worked closely with its IT supplier to ensure recovery functionality is now available. Management have informed me that the rate recovery IT functionality is now operating correctly.

2.2.44 In 2005-06 I registered concerns about the significant number of domestic properties, then 46,000, where rates were in arrears. We asked the Agency to provide an analysis of the 2006-07 arrears figure split by domestic and non domestic rates, but were informed that such analysis is not currently available from the IT system. Analysis performed by my staff indicates that the total number of properties in arrears, including domestic and non-domestic properties, was 54,212 at 31 March 2006. The total number of properties in arrears at 31 March 2007 is 112,930, representing an increase of 108 per cent.

2.2.45 The Department also informed me in my 2005-06 report that those ratepayers who had defaulted would be pursued vigorously during the current financial year. The Agency has informed me that during the 2007-08 year, various recovery actions have been taken, with the issue of 33,000 instalment reminders, 102,000 final demands, 24,000 court summons and 8,000 decrees awarded by District Magistrates, and almost 400 statutory demands were issued for bankruptcy or liquidation action.

2.2.46 The Department had also indicated to me in my 2005-06 report that a team dedicated to dealing with rate arrears was being established and would be strengthened during 2007-08. The Agency informed me that a team of seven staff was put together to deal with arrears once recovery action recommenced and

9 NIAO report 'Performance Measurement and Reporting in the Rate Collection Agency', 6 July 2000 reported that in the years from 1991-92 and 1998-99 there was only one year, 1994-95, that the Ministerial Target of 98 per cent was not met.

that rating debt carried forward at 31 March 2007 was reduced to £41 million from £88 million as a consequence[10].

2.2.47 An aged profile of amounts in arrears could not be produced at 31 March 2007, but we were provided with an ageing of amounts in arrears at November 2007. It is concerning that such critical management information was not available and therefore not being used by the Agency at a time when the level of arrears was increasing significantly.

2.2.48 There is a significant amount, £3.5 million, of rates in arrears which dates back to pre 2004. These arrears clearly pre-date the problems encountered in 2006-07, but continued delay in the recovery of amounts in arrears increases the risk of a significant loss of public funds. Whilst write offs have historically been low, delayed recovery may lead to higher write offs, as amounts in arrears approach the Statute of Limitations deadline for recovery. The Agency informed me that debt is only written off when all possible recovery means have been exhausted. Chasing older debt and tracing ratepayers who have moved several times can be time consuming and is less likely to produce a return. The older debt highlighted is not due to delayed recovery but probably reflects the Agency's lack of powers in the past to seek information about ratepayers from other sources. The new power under Article 26 should help in this respect.

2.2.49 Delays in receipt and, ultimately, any failure to collect amounts billed in respect of rates, affects central government funding only, with amounts allocated to District Councils protected by statute. This inevitably impacts on the resources available for central government allocations across the public sector.

Non Domestic Vacant Rating

2.2.50 Non Domestic Vacant Rating (NDVR) was introduced on 1 April 2004 as a charge payable on non domestic properties which are vacant. Since its introduction, the RCA has been unable to establish full ownership details of NDVR properties. At 31 March 2007, ownership details relating to some 1,122 properties are still not confirmed, resulting in unbilled rates of approximately £2.6 million. This is an improvement on the position at 31 March 2006, where ownership details in relation to 2,433 properties were unknown, with unbilled rates of £6.8 million. The Agency has informed me that at February 2008, the number of NDVR properties where ownership remains unknown has reduced further to 626 properties and that, whilst ownerships remain unknown, a bill has been issued to these properties addressed to "The Owner".

2.2.51 I acknowledge the efforts of the Agency in issuing bills to properties in the name of "The Owner". While this may result in some success, it is essential that the ownership of these properties is established, as further recovery action such as court summonses must be issued to a named individual.

2.2.52 While there has been a notable improvement in establishing ownership of

10 Whilst the Agency has indicated that the arrears figure of £88 million at 31 March 2007 has reduced to £41 million, assessments relating to the 2007-08 year mean that the total arrears figure has risen from £88 million to £130 million at 31 March 2008.

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these properties, the difficulties experienced in this area have impacted on the overall arrears figure (see above at paragraph 2.2.50). At 31 March 2006, management informed me that approximately £11.5 million of the total amount in arrears related to NDVR. At 31 March 2007, management were not able to confirm the total amount in arrears which related to NDVR, but have estimated it to be in the region of £10 - £15 million.

2.2.53 I acknowledge the efforts made by the Agency to ascertain ownership details for properties. However, there remain many properties for which ownership details are unconfirmed almost four years after the introduction of NDVR. The increasing delay in establishing ownership and therefore in collection of rates on these properties increases the risk of a loss of public funds. Once ownership details are established the delay experienced also places a significant burden on the non domestic ratepayer, who may be issued with a rates bill relating to a four year period.

Refunds

2.2.54 A fault with the Revenue Collection module of the new IT system led to the duplication of refunds on 6 December 2006 and refund processing was stopped.

2.2.55 The Agency informed me that there was no overpayment as the duplicates could not be cashed, that the problem was rectified and refund processing resumed on 11 December 2006, with the backlog of refunds cleared by February 2007.

Fraud Risk

2.2.56 I am concerned about the adequacy of management procedures to identify and manage fraud risk within the Agency during the 2006-07 year. The Agency has in place a fraud policy for the use of staff, however there is no whistleblowing policy in place. At February 2008, a whistle blowing policy is belatedly under development by the Department, which will also be used by its Agencies, but is yet to be implemented.

2.2.57 Rebates relating to those in receipt of Housing Benefit have increased to £27 million in the 2006-07 year. Due to the nature of the qualification of the Social Security Agency Account, there is an inherent risk that the rebates given by RCA may be at risk of fraud and error, in my view.

2.2.58 The findings of internal audit in respect of system failings (noted above at paragraph 2.2.14) further increases the risk of fraud arising.

Part 3: Impact of Review of Rating Reform concurrent with the introduction of a new IT system

2.2.59 As noted above at 2.2.8, the new IT system introduced during the 2006-07 financial year has been problematic and has impacted directly on the Statement of Rate Levy and Collection 2006-07. The implementation process has itself been complex, with delays and cost implications noted at Figure 4.

Delays in implementation

2.2.60 Following a tendering exercise, the contract for the new IT system was awarded in January 2005 to run for 8 years, with total costs estimated at £10.5 million. Following a three-month delay (see Figure 4) the new IT system went live in October 2006. In addition to the provision of application services for Rate Collection and Housing Benefit, the IT contractor will deliver printing and output

Figure 4: Delays in implementation of the IT system

Phase	Activity	Planned Implementation Date	Actual Implementation Date	Delay as at February 2008
Phase 1 (Core Rate Collection)	Replacement of the existing revenue collection system	July 2006	October 2006	3 months
Phase 2 (Management Information)	Introduction of executive information system modules	October 2006 * *Implementation deferred as part of the domestic reform contingency plan*	April 2007	6 months
Phase 3 (Housing Benefit)	Replacement of the Housing Benefit system	October 2006 * *Implementation deferred as part of the domestic reform contingency plan*	Not yet delivered	16 months to date * *Deferred again in Jan 08 because of data quality issues and to reduce the risk to the 08/09 billing run*
Phase 4 (Rating Reforms)	Implementation of changes to introduce rating reform	February 2007 * *This was sub divided into phases A to E to ensure that the functionality to issue domestic rate bills during April 2007 was delivered*	A - C delivered between February and July 2007 D and E partially delivered	Delays ranging from 2 months to 12 months to date * *The remaining elements of D and E[11] have and continue to be reprioritised by reference to overall business need*

* Indicates information supplied by the Agency

Source: NIAO review of RCA documents

11 Phase D includes functionality for certificates of revision, payment of interest, education training and leaving care, and farm diversification. Phase E includes functionality for the input of poundages, local enterprise agencies and hardship relief.

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handling services, training services for all users, and application maintenance and support, including technology refresh and consultancy services.

2.2.61 Implementation of the IT replacement project has been phased. However, each phase of implementation after go live has been delayed, as shown at Figure 4. The Agency told me that this work was prioritised to accommodate further changes to the domestic rating system introduced by the Government after the go live date, and to ensure that domestic rate bills based on capital values were issued during April 2007.

2.2.62 I asked the Department why each phase of the project has been delayed, and what steps are being taken by the Agency to ensure effective project implementation and to manage the risk over supplier performance. The Department told me that;

- *the project was phased to reduce the risk from a "big bang" approach. In autumn 2006 a conscious decision was taken to prioritise work to ensure that domestic rate bills based on capital values could be issued and could incorporate further changes to the domestic rating system proposed by the Government in October 2006. The phases were reordered and the project plan redone with the approval of the Project Senior Responsible Officer, the Project Board and the DFP Rating Reform and Modernisation Programme Board. Contingency plans were developed further and deployed to ensure that domestic reform was delivered during April 2007. From October 2006 to April 2007 the then Permanent Secretary and other senior colleagues met regularly with the Managing Director of the Supplier and the Chairman of the supplier's parent company to ensure that there was a clear and shared focus between the Department, the Agency and the Supplier to achieve progress towards the remaining agreed domestic reform IT milestones. The Minister also received weekly reports on progress. The capability and capacity of the supplier to deliver the project was thoroughly examined, with assistance from Central Procurement Directorate and Delivery Innovation Division, and satisfactory assurances were provided to the Project and Programme Senior Responsible Officers and Permanent Secretary'.*

Increased costs expected

2.2.63 Total expenditure for the IT Replacement Project for the period 2004-05 to 2011-2012 was estimated at £10.5 million. By January 2008 actual expenditure incurred was £6.1 million. In light of costs to date, the Agency has now increased its estimate of total costs to £11.5 million.

2.2.64 Each milestone payment has been paid in advance of full implementation of the respective Phase to which it relates, with all contracted milestone payments, totalling £1.4 million, paid in full by the end of January 2008. I asked the

Department why payments were made in advance of full implementation of each Phase. The Department told me that milestone payments were paid in accordance with the contract which was based on the original specification. There were circumstances where money was retained due to outstanding problems but these were all resolved by January 2008. As noted in Figure 4, full implementation of each individual phase of the project remains outstanding.

System capacity in respect of future rating reforms

2.2.65 The new IT system is required to support the Agency in achieving changes in statutory requirements introduced from April 2007 and enable the Agency to deal with changes to its business or processes. As noted in Part 2 above, the required capabilities of the IT system have been subject to significant adaptation and changes in specification in light of the current and ongoing proposals in respect of the Review of Rating Reform. At present, the system does not yet have the capacity to process many of the reliefs introduced by the Review of Rating Reform, some of which are already in operation. Such reliefs are set out at Figure 5.

2.2.66 I asked the Department how those reliefs that are currently in operation are being managed by the Agency at present. The Department told me that manual

Figure 5: IT System capacity in respect of future rating reforms

Relief	Date from which relief is operational	Current capacity of IT system to operate relief
Rate relief	1 April 2007	Relief currently implemented with manual workaround
Education and Training relief	1 April 2007	Relief currently implemented with manual workaround
Payment of interest	1 April 2007	Interim system due to go live early May and full system November 2008
Farm diversification relief	1 April 2007	Relief currently implemented with manual workaround
Local Enterprise Agency relief	1 April 2007	Relief currently implemented with manual workaround
Hardship relief	1 January 2007	Separate interim IT system in place. Go live scheduled for October 2008
Lone pensioner allowance	1 April 2008	Go live scheduled for 13 May 2008
Savings limit relief	1 April 2008	Go live scheduled for 28 July 2008

Note: The Agency has informed me that any potential changes as a result of the introduction of water billing is documented in the project risk register, with the risk being managed accordingly.

Source: Information supplied by the Agency

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workarounds and interim arrangements are in place and operating and that plans to add the necessary functionality to the IT system are in place. This is despite an earlier Gateway Review raising concerns regarding the use of manual workarounds to remove the need to implement all the rating reforms on the IT Replacement System by 1 April 2007.

2.2.67 Apart from the processing of Rate Relief which is included within the contracted costs for Phase 3 (Housing Benefit), procedures for the above will result in additional costs for the project. The Agency has estimated that it will pay an additional £745,000 to the contractor to implement the required procedures.

2.2.68 Although procedures for some of the above reliefs will go live in the short term, the system to process payment of interest[12] on many of these reliefs will not be ready until Autumn 2008, some 18 months after the introduction of some of these schemes. The Agency informed me that this solution is extremely complex and was deferred by management. A decision has been made to establish a team to manually calculate interest due and add it to refunds being processed from April 2008 onwards, and to start work on reducing the backlog of outstanding payments of interest.

Part 4: Conclusions and Recommendations

2.2.69 The problems with the new IT system have had a significant impact on my ability to complete my audit work in the 2006-07 year. I have been unable to place reliance on an adequate system of internal control or to obtain an adequate audit trail for many of the account balances presented in the 2006-07 Statement of Rate Levy and Collection. This has limited the audit work I can perform, and therefore limited the level of assurance or audit opinion I can give in the 2006-07 year.

2.2.70 There are a number of areas where improvements to the IT system and a strengthening of the controls currently operating at the LPS are required. I understand that the LPS and DFP are currently working to ensure improvements in the IT system and the operating environment at LPS, and I encourage the prioritisation and the urgency of these improvements.

2.2.71 In addition to the work already underway at the Agency, I recommend that:

- in order to improve accountability and corporate governance of the significant amount of public funds recorded in this account, the Department must pursue with urgency the preparation of a full set of audited financial statements for Rate Levy and Collection;
- the Agency must continue to work towards resolving standard accounting issues including bank reconciliations and the allocation of all remaining unallocated cash at 31 March 2007, and ensuring that all figures presented in the statement have a full and accurate audit trail; and

12 The Rates (Payment of Interest) Regulations (Northern Ireland) 2007: From 1 April 2007, any repayment of rates made shall include interest on the repayment, calculated from the date the Agency received the amount to the date the amount is repaid.

- the Department and the Agency should ensure that sufficient and appropriate resources are employed at the Agency to remedy all major outstanding problems with the IT system, to reduce the backlog in arrears and rate collection to acceptable levels, and to carry out the routine business operations and management controls of the Agency.

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APPENDIX 1

Summary of Gateway Reviews completed on the RCA IT Project

1. The Office of Government Commerce (OGC) introduced the Gateway Review process in Great Britain in 2001 to improve the delivery of large procurement projects. It was adopted as procurement policy for IT projects in Northern Ireland in 2003 and for construction projects and programmes in 2004[13].

2. The process provides a structured approach to project management by carrying out reviews at five key decision points or "gateways" in the life of a project; three before the award of the contract and two covering service implementation. Reviews are conducted by a team of experts who are independent of the project. Reports are made at each Gateway giving a Red, Amber or Green status depending on the urgency of any action required to ensure the project's successful progress:

   Red - take action immediately
   Amber - take action by the next Gateway Review
   Green - take action as required.

3. Reports are provided on a confidential basis to the Senior Responsible Officer (SRO) of the project. The confidential status of reports was intended to promote openness and honesty about the state of a project between the project and review teams. In Great Britain, these arrangements have been refined to encourage procurement Centres of Excellence in Departments to get access to Gateway reports as part of their monitoring of all departmental projects[14].

4. Four Gateway Reviews of the IT Replacement Project have been undertaken to date, with the results as set out below.

5. In September 2006, the RCA received their second consecutive red Gateway review categorisation. In line with the arrangements agreed at the OGC Supervisory Board, the OGC reported these to the DFP Permanent Secretary and to the National Audit Office on 27 September 2006. In response, the SRO provided a personal assurance about the implementation of Gateway Review Recommendations on 17 September, advising that all Gate 3 recommendations (which had given rise to the first red assessment) were fully implemented before the start of Gate 4, that four of the seven Gate 4 recommendations had already been fully implemented and that action to implement the three remaining recommendations was ongoing. The six red recommendations had been implemented by the time the SRO provided an update on progress of the project to the Minister on 19 December 2006 and the amber recommendation was implemented in January 2007.

Gateway Review No.	Date	Status
2: Procurement Strategy	March 2004	Red
3: Investment Decision	December 2004	Amber
3a: Towards Readiness for Service	December 2005	Red
4: Readiness for Service	September 2006	Red

13 This was introduced for IT-enabled projects in DAO (DFP) 33/03 and for all acquisition based programmes in DAO (DFP) 17/04.
14 HM Treasury: Minute on the Nineteenth and Twenty-Seventh Reports from the Committee of Public Accounts 2004-2005, Cm 6682, November 2005.

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Department of Culture, Arts and Leisure

Accounting for Ordnance Survey of Northern Ireland's Topographic Database

3.1.1 Ordnance Survey of Northern Ireland (Ordnance Survey) is an Agency within the Department of Culture, Arts and Leisure. It is responsible for the official surveying and topographical mapping of Northern Ireland and it aims to maintain a topographic database to standards of currency, completeness and accuracy that meets the needs of its customers.

3.1.2 Ordnance Survey comes within the departmental boundary of the Department of Culture, Arts and Leisure (the Department) and its accounts are consolidated into the resource accounts of the Department.

3.1.3 The topographic database is a definitive computerised map of Northern Ireland and consists of geodetic networks and topographic information from large scale survey work accumulated over many years. Ordnance Survey's income arises mainly from sales and licensing of maps, data, copyright and other repayment tasks arising from the database. Apart from the commercial application of the database an element of the data is collected and maintained in the national interest. To date no value has been placed on this element of Ordnance Survey's work.

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

3.1.5 However, as disclosed by the Department in note 1.6 to its accounts and in accordance with FRS10 Goodwill and Intangible Assets, the database has been treated as an intangible fixed asset with no value attached to the database. On-going costs incurred for maintaining the database have been charged to Ordnance Survey's income and expenditure account and the Department's operating cost statement. Both the Agency and the Department have accounted for the database as an intangible fixed asset at nil value on the grounds that it is internally developed and has no readily ascertainable value.

3.1.6 In my report on the 2000-01 Ordnance Survey's Accounts and each subsequent account since then I have carefully considered the accounting treatment of the database and disagreed with the Agency's accounting treatment, as I regard the database as a tangible fixed asset which should be capitalised in accordance with FRS 15.

3.1.7 In note 1.6 of its accounts the Department has stated that "…having carefully reviewed the matter, and considered relevant comparator organisations, [Ordnance Survey] considers that the electronic mapping data is virtual rather than physical in nature and being akin to intellectual property is an intangible asset." The note goes on to state that the data is unique and has never been actively traded and since FRS 10 states that internally developed intangible assets are only capitalised where there is a readily ascertainable market value evidenced by an active market in similar assets, no value should be attached to this asset in the financial statements.

3.1.8 Ordnance Survey also noted in its 2006-07 accounts that "This issue is an example of the international debate over the reporting of intangibles. We are monitoring developments in the wider business community, particularly with regard to the implementation of International Accounting Standards to which Ordnance Survey will be required to convert in 2008-09. In addition, as we move closer to integrating into Land & Property Services we will continue to seek ways to solve the problem. In the meantime, we urge readers of our financial statements to take account of the intangible value of both the spatial data and the Ordnance Survey brand".

3.1.9 Having considered the representations made by the Department and Ordnance Survey, it remains my opinion that the database has physical substance and is held for use in the production of goods and services on a continuing basis. In my reports on Ordnance Survey's accounts for the financial years 2000–01 to 2005–06 I noted that historically the database had cost more to maintain each year than it generated in income and that as noted in paragraph 3.1.3 of this report, no value has been placed on that element of the Agency's work which is undertaken in the national interest. My conclusion was that although I disagreed with the Agency's chosen accounting treatment of the database it was unlikely during these periods that any material misstatements had arisen in the accounts as a result of not capitalising the database. Consequently, although I disagreed with Ordnance Survey's chosen accounting treatment of the database, my opinion on the Agency's accounts was unqualified.

3.1.10 In the 2006 - 07 year the Agency had recorded a surplus of income over expenditure of £1.8 million and the Agency had told me that it expects to record a surplus of income over expenditure of £1.5 million in 2007–08. I considered that, as the database is now generating more in income than it costs to maintain, it is now likely that the database has a material value.

3.1.11 The Department discloses in its accounts (note 1.6) that "throughout 2006-07 attempts were made by OSNI to seek a solution to the disagreement in conjunction with the Department of

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Culture, Arts and Leisure, the Department of Finance and Personnel, Her Majesty's Treasury and the Northern Ireland Audit Office. However, discussions on the accounting treatment in respect of this issue are ongoing". I would note that this disagreement is the same as that experienced over a number of years by the Agency's sister organisation Ordnance Survey (Great Britain) and its auditors, the National Audit Office. Ordnance Survey Great Britain's accounts have been qualified on this matter every year since 1999-2000.

3.1.12 I therefore qualified my opinion on the Agency's 2006-07 accounts because of my continuing disagreement with Ordnance Survey's decision not to capitalise the database, and the evidence this year of the material value of the database due to the surplus of income over expenditure earned in 2006-07 and the expected surplus of income over expenditure in 2007-08. The annual report and accounts of Ordnance Survey of Northern Ireland for 2006–07 have been printed and laid before the Assembly (NIA 40/06-07).

3.1.13 As noted in paragraph 3.1.2 of this report the accounts of Ordnance Survey form part of the resource accounts of the Department. In my view, the database, is a material tangible fixed asset, the value of which should be included in the Department's balance sheet in order that the accounts show a true and fair view. I have therefore also qualified my opinion on the Department's accounts, as I did when reporting on those of Ordnance Survey.

Department for Social Development

Part 1: Introduction and Executive Summary

Introduction

3.2.1 The Department for Social Development (the Department) is responsible for administering a wide range of expenditure aimed at helping those in need, promoting measurable improvements to housing in Northern Ireland and tackling disadvantage amongst individuals and communities. Through the Social Security Agency and the Northern Ireland Child Support Agency, the Department is responsible for the administration of social security benefits and child support. The Northern Ireland Housing Executive is responsible for administering Housing Benefit Rent and Rates for tenants and the Rates Collection Agency is responsible for administering Housing Benefit rates for owner occupiers. The Department's financial assistance to the housing and urban regeneration sectors is administered through its Resources, Housing and Social Security Group and the Urban Regeneration and Community Development Group respectively. In 2006-07, the Department accounted for expenditure of £4.7 billion on these areas, including associated administration costs, in its consolidated Resource Account.

3.2.2 This report:

- summarises the results of my audit and sets out the reasons for my qualified audit opinions (Part 1);

- reviews the results of my audit of expenditure on social security benefits (Part 2); and
- reviews the results of my audit of expenditure by the Department on urban regeneration and community development grants (Part 3).

Executive Summary

The reasons for my qualified audit opinion

Fraud and Error in Social Security Benefits

3.2.3 The estimated level of losses due to overpayments of benefits to customers as a result of fraud and error in 2006 is £69.7 million (1.8 per cent of total benefit expenditure). A further estimated amount of £22.6 million (0.6 percent of total benefit expenditure) was underpaid to customers. I have qualified my audit opinion on regularity on the account because of these significant levels of estimated fraud and error in certain social security benefits.

Financial Control Weaknesses over Urban Regeneration and Community Development Grants to Voluntary and Community Bodies

3.2.4 On the basis of my audit findings, I have concluded that although significant progress has been made, the Department's financial controls and monitoring of expenditure in relation to grants to voluntary and community bodies have still not achieved the levels of performance expected when administering public money.

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

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

Introduction

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

3.2.7 During 2006-07, the Department accounted for expenditure of £1.78 billion on non-contributory Social Security benefits, £1.64 billion on contributory Social Security benefits and £71 million on Social Fund expenditure, administered by the Social Security Agency. Additionally, the Department accounted for expenditure of £431 million on Housing Benefit, comprising £350 million for Housing Benefit Rent and £54 million for Housing Benefit Rates (tenants) which are both administered by the Northern Ireland Housing Executive (NIHE) and for the first time this year £27 million for Housing Benefit Rates (owner occupiers)

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which is administered by the Rates Collection Agency (RCA).

Background and the accounting arrangements for this expenditure

3.2.8 The Social Security Agency (the Agency) is an Executive Agency within the Department; benefit expenditure accounted for within the Agency Account is also included within the 2006-07 DSD Resource Account programme expenditure.

3.2.9 My audit of the 2006-07 Agency Account has now been completed. The Agency Account was qualified on regularity because of significant levels of estimated fraud and error in certain social security benefits. This qualification also impacts upon the Department's Resource Account.

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

3.2.11 I reported the results of my audit of the 2006-07 NIHE Accounts on 29th June 2007. The NIHE Accounts were qualified on regularity because of significant levels of estimated losses due to fraud and error in Housing Benefit administered by NIHE. This qualification also impacts upon the Department's Resource Account.

Fraud and Error in Social Security Benefits

3.2.12 In 2006-07, for the first time, the Department has disclosed estimated levels of fraud and error in benefit expenditure in a note to the accounts, Note 41 entitled Payment Accuracy. This note is primarily based on corresponding disclosures made in the Agency's accounts for benefits administered by the Agency. The Department has also included estimated levels of fraud and error for Housing Benefit, although comparative amounts for estimated fraud and error in Housing Benefit (owner occupiers) in 2005 and 2004-05 have been omitted as the Department did not have to account for that benefit expenditure in those years. I welcome this development as it represents a significant improvement in the disclosure of this information by the Department. In addition to the estimated levels of fraud and error in benefit expenditure which have caused me to qualify the Department's accounts, paragraph 3.2.15 below details a specific category of Disability Living Allowance (DLA) cases. These are cases where the Agency found customers were not receiving their appropriate entitlement to DLA benefit when the cases were reviewed. For 2006 the Department estimates that overpayments for this specific category of 'change in customers' circumstances' cases totalled £20.2million and underpayments totalled £42.8million.

3.2.13 Figure 1 compares the estimated levels of fraud and error in benefit payments made by the Department over the last 3 years. The estimated overpayments indicate a downward trend both in the value of estimated error reported, and also in the percentage of total benefit expenditure that the value of error represents. The level of estimated benefit underpayments has also marginally decreased in value.

3.2.14 I asked the Department to comment on these trends and the Department told me that the decrease in overpayments is attributable to improved performance for Income Support, Jobseeker's Allowance, Pension Credit, Attendance Allowance and Social Fund. In addition, the Department noted that there has also been a reduction in the estimate for 'Instrument of Payment' fraud which reduced from £2.7 million in 2004-05 to £0.4 million in 2006-07. This reduction was partly due to the introduction of the method of Direct Payment and the Department's pro-active approach in advocating this as the preferred method of payment for benefit awards. The Department also notes it has introduced a more rigorous procedure to be adopted when requests are received for the replacement of cheques, and this has also contributed to a reduction in this particular element of fraud. In terms of underpayments, the Department commented that, compared to 2004-05, in five of the 10 benefits the percentage error due to underpayments has dropped markedly i.e. Income Support, Jobseeker's Allowance, State Retirement Pension (including Bereavement Benefits), Attendance Allowance and Housing Benefit. In a further two benefits, namely Carer's Allowance and Social Fund, the percentage error has remained at the same 2005 low figure of 0.4 per cent and 0.8 per cent of expenditure respectively. The Department has also told me that the NIHE has in place a strategy aimed at reducing the level of fraud and error, and the implementation of this strategy is monitored by the NIHE Audit Committee and Board. The Department indicated that the strategy is aimed at a reduction of 10 per cent on the estimated level reported for April 2005 by December 2008.

Figure 1: Estimated levels of fraud and error in benefit expenditure

	2006 **£m**	**2005** **£m**	**2004-05** **£m**
Overpayments (Note 41) **% of benefit expenditure**	69.7 **1.8%**	78.7 **2.1%**	83.7 **2.3%**
Underpayments *(Note 41)* **% of benefit expenditure**	22.6 **0.6%**	23.9 **0.6%**	12.6 **0.3%**

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

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Disability Living Allowance

3.2.15 A Disability Living Allowance (DLA) Benefit Review was performed in 2006, the first since 2003-04. Figure 2 summarises the results of the 2006 Benefit Review carried out for DLA. The results from the Benefit Review indicate that in 2006 an estimated total of £6.8 million was overpaid due to fraud and error. The Review also estimated that, in relation to the DLA 'change in customers' circumstances' cases, an amount of £20.2 million was paid to customers in excess of benefit entitlement. Correspondingly an approximate £6.6 million was estimated to have been underpaid to customers due to fraud and error within DLA, and in relation to the 'change in customers' circumstances' cases, approximately £42.8 million was underpaid. I am concerned that the overall results from the Benefit Review, illustrated in Figure 2, indicate increasing levels of fraud and error, and increasing numbers of cases falling within the category of 'change in customers' circumstances'.

3.2.16 During the previous Benefit Review carried out by the Agency, the majority of DLA cases where the Agency concluded that the customer was not receiving the appropriate level of benefit as a result of a gradual deterioration or improvement in the customers condition, were categorised as 'benefit correct, change in circumstances'. This trend continued in the 2006 Benefit Review of DLA where, out of the 208 cases found to be receiving the wrong level of benefit, 205 cases were in the category 'benefit correct, change in circumstances'. The legislation currently governing the administration of DLA recognises the circumstances surrounding the cases within this specific

Figure 2: Disability Living Allowance- Benefit Review results

	2006 £m	2005 £m	2004-05 £m
Overpayments due to Fraud and Error	6.8	4.6	4.5
Change in customers' circumstances (where payments are made in excess of benefit entitlement)	20.2	17.8	17.0
Estimated DLA benefit paid in excess of entitlement	**27.0**	**22.4**	**21.5**
% of DLA expenditure	**4.5%**	**3.9%**	**3.9%**
Underpayments due to Fraud and Error	6.6	-	-
Change in customers' circumstances (where benefits are increased subsequent to review)	42.8	32.1	30.6
Estimated DLA benefit due as a result of the review	**49.4**	**32.1**	**30.6**
% of DLA expenditure	**8.2%**	**5.6%**	**5.6%**

category i.e. where the customer's improvement or deterioration was so gradual that they could not reasonably have been expected to have known that the change in their condition should have been reported to the Agency. In these circumstances the legislation determines there are no overpayments or underpayments and the benefit is adjusted from the date of the review. However, it is my view that the Department should prioritise the review of customers who have conditions where there is a higher probability of gradual improvement or deterioration. In response to my previous comments on the level of cases found within this category upon review, the Agency commenced a three year programme, in April 2006, with the aim of identifying DLA 'change in customers' circumstances' cases that have not been notified to the Agency.

3.2.17 The Agency told me this programme involves a risk based approach with the intention to make contact with all DLA cases considered to be at high risk of a change in condition. The Agency has told me that the programme consists of two elements: Periodic Enquiry which is a full review including a customer visit aimed at the highest category of 'at risk cases'; and a tailored mailshot to customers deemed to have a lower potential for a change in their condition. If a customer reports a change in response to the mailshot, the case is subjected to a full Periodic Enquiry review.

3.2.18 From April 2006 to March 2007 the Agency advised me that for the Periodic Enquiry cases examined, 47 per cent resulted in a change to benefit. The monetary value of the adjustments to these cases was £3,564,963. The Agency reported that for those cases in the mailshot who did report a change and have been investigated by the Agency, 38 per cent showed changes to the combined value of £275,953 (£145,858 overpayments; £130,095 underpayments). However, the Agency highlighted that it is important to note that this action may not directly lead to a reduction in this type of change to benefit entitlement. The Agency indicated that the DLA liveload is continually being refreshed with similar cases. The Agency also pointed out that although it uses a risk based approach, and in many cases limits the period of the benefit award, it must be appreciated that in many of the DLA awards there will continue to be cases where the disabled person will experience a gradual deterioration or improvement in their condition. In addition, the Agency told me that those cases that have been subject to review through the Periodic Enquiry process mentioned above will themselves remain susceptible to change.

3.2.19 It is pleasing to note the progress made by the Agency in rolling out this new programme, and I expect to see a future reduction in the estimated numbers of DLA 'change in customers' circumstances' cases. I will continue to monitor the impact this work has on the estimated levels of over and underpayments arising from this specific category, for this very important and complex benefit.

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Official Error - Agency Benefits

3.2.20 Official Error arises when the Agency incorrectly processes a new claim to benefit or takes incorrect action when processing a change of circumstance notified by a customer. Figure 3 summarises the results from the Agency's review for both estimated overpayments and underpayments in benefits arising from Official Error.

3.2.21 In 2005-06 the Agency advised me of the efforts being taken to improve accuracy across all benefits. At the time I encouraged the Agency to continue to consider methods and processes to reduce these errors. I am pleased to note that, for 2006, the overall estimated level of Official Error has decreased significantly this year from £79.8million to £46.9million and that overall accuracy rates have increased from 97.7 per cent to 98.7 per cent. This reflects the continuing efforts made by the Agency in reducing these errors made by officials.

3.2.22 I note that Official Error rates for specific benefits indicate a marked improvement and I particularly welcome the significant reduction in the monetary value of Official Error for DLA which is a complex benefit to administer. However, I am disappointed to note that Pension Credit and Incapacity Benefit accuracy rates have deteriorated from 2005-06. I make specific comments on Pension Credit below but asked the Agency about the overall Official Error rates trend. The Agency told me that the overall reduction in Official Error reflects the concentration that has been focused across all benefits on achieving accuracy. However, the Agency points out that accuracy levels have been high for some time and it is increasingly difficult, due to the effect of statistical tolerances, both to achieve measurable improvement and to maintain these high standards. The Agency notes that it is unfortunate that both Pension Credit and Incapacity Benefit showed a decrease in accuracy of one percentage point of expenditure, although there were particular circumstances in each benefit which contributed to this.

3.2.23 In order to address Official Error, the Agency has implemented an Accuracy Improvement Plan with various initiatives such as refresher training, one to one mentoring, and individual performance monitoring. As part of this process the Agency's teams discuss key learning points on an ongoing basis to ensure continuous improvement.

3.2.24 There is no financial accuracy target set or no measurement of financial accuracy for Housing Benefit. However, the Department told me that NIHE currently include a Processing Accuracy Target which is set at 95 per cent of claims. The Department informed me that this target relates to the percentage of cases for which the calculation of the amount of benefit due was correct on the basis of the information available. The Department told me that the outturn for 2006-07 was 95.7 per cent.

Figure 3: Official Error - Agency benefits

Benefit	2006 Monetary Value of Error £m	2006 Financial Accuracy correctness as a % of expenditure	2006 Target	2005 Monetary Value of Error £m	2005 Financial Accuracy correctness as a % of expenditure	2005 target
Non-contributory						
Income Support	3.9	99.2%	99.0%	11.0	97.7%	99.0%
Jobseeker's Allowance	0.7	99.1%	99.0%	0.7	99.2%	99.0%
Disability Living Allowance	12.0	98.0%	98.0%	37.3	93.5%	96.0%
Attendance Allowance	0.9	99.5%	Not available*	4.2	97.8%	Not available*
Carer's Allowance	0.9	98.8%	Not available*	1.1	98.7%	Not available*
Pension Credit	14.2	95.2%	98.0%	11.0	96.2%	96.0%
National Insurance Fund Contributory						
State Retirement Pension (and Bereavement Benefits)	5.1	99.6%	99.0%	9.2	99.2%	99.0%
Incapacity Benefits	7.6	97.7%	99.0%	3.7	98.8%	99.0%
Social Fund						
Payments, grants and loans	1.6	98.1%	Not available*	1.6	97.7%	Not available*
Total	**46.9**	**98.7%**		**79.8**	**97.7%**	

* Not available as targets not set for these benefits
(For 2006 and 2005 the Official Error figures above are taken from the Financial Accuracy exercises).

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Pension Credit

3.2.25 Pension Credit was introduced during 2003. In 2006, performance levels for Pension Credit did not continue to improve at the same rate as in previous years. Figure 3 indicates a financial accuracy rate of 95.2 per cent for 2006. This represents a decrease from last year (96.2 per cent) and falls below the target set of 98 per cent. I acknowledge that Pension Credit is a means tested benefit and is therefore complex to administer but it is my expectation that any difficulties associated with the introduction of a new benefit should have been overcome in this the third full year of payments of this benefit. I still remain concerned with the poor performance levels and I am disappointed at the lack of improvement.

3.2.26 The Agency told me that many of the difficulties associated with the introduction of a new benefit have in fact been overcome, allowing more accurate processing of current claims and changes in circumstances. However, the Agency would emphasise that the accuracy figures reported do represent historic inaccuracies within cases, for example, over a quarter of the cases reported as errors in the 2006 review sample were actually errors made prior to the existence of Pension Credit. The Agency has developed plans using statistical analysis to target and correct the cases at the highest risk of error in the live load.

3.2.27 In addition, the Agency told me it will continue to pursue improvement in current processing standards and cleansing of cases on a scale that resources permit. The Agency told me that the Accuracy Improvement Plan (AIP) introduced in 2006 identified a number of activities to impact directly on accuracy, including the appointment of a free standing Pensions Credit Checking Team which since January 2006 has concentrated on checking every single new claim for Pension Credit and targeted checking cases undergoing reassessment which were at the highest risk of error. The Agency indicated that the results of this work suggest improvement in current processing standards – for example the case accuracy of new claims processing in 2006 is significantly higher (92 per cent) than the historic case accuracy of the case load (84 per cent). The Agency also told me it reviews, analyses and corrects any errors found through these checks and ensures that any necessary remedial action is implemented, such as additional training and awareness of how to treat certain changes in circumstances. The Agency notes that its AIP benchmarks extremely well against similar plans in GB and will be further enhanced in 2007. The Agency expects these initiatives to improve future accuracy rates over time. I welcome the steps taken by the Agency and will continue to monitor this area.

Conclusion

3.2.28 In forming my audit opinion I am required to confirm that the account is free from material misstatement, whether caused by error, fraud or irregularity. My audit opinion on regularity has been qualified due to material levels of estimated fraud and error in certain benefit expenditure.

Part 3 : Qualified Audit Opinion Arising from Weaknesses in Financial Control and Monitoring of Expenditure in relation to Urban Development and Community Development Grants to Voluntary and Community Bodies

Request For Resource C : Urban Regeneration And Community Development

Introduction

3.2.29 In 2006-07 the Department paid out £92 million (2005-06 £69 million) in respect of expenditure on Urban Regeneration and Community Development grant. Much of the expenditure is administered through third parties such as intermediary funding bodies, community groups, voluntary organisations and statutory bodies.

3.2.30 I have qualified my audit opinion on the expenditure in this area for the past seven years on the basis of weaknesses in the Department's financial controls and monitoring of this expenditure. My examination of the 2006-07 expenditure in this area has revealed that, although significant progress has been made, the Department's control and monitoring of grants made to voluntary and community bodies is still not satisfactory. I explain the basis of my opinion in paragraphs 3.2.31 to 3.2.54 below. I have also commented on the further developments the Department has made on the risk based assessment approach to the monitoring and verification of grants made to the voluntary and community sector.

NIAO Audit Opinion

3.2.31 I have formed my qualified audit opinion on the basis of the results of the following:

- a review of the findings of the work completed by the Department's Internal Audit Unit and in particular its annual assessment made of this area of the Department's expenditure (paragraphs 3.2.33 to 3.2.45);
- a review of the work carried out by the Quality Assurance and Improvement Unit (paragraphs 3.2.46 to 3.2.50); and
- a review of the results of the management inspection checks performed during the year by management (paragraphs 3.2.51 to 3.2.54).

3.2.32 My staff examined a sample of seven urban regeneration and community development projects funded by the Department during the year. Each project has been assessed using a test matrix of nineteen criteria. I am pleased to report that no significant issues were noted. All criteria were satisfied for each of the projects.

Review of Internal Audit findings

3.2.33 The Department's Internal Audit Unit prepares an annual audit plan, based on a risk assessment for each major part of the Department's activities. Internal Audit then reports progress and findings to the relevant audit committees and presents an

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annual assurance report to the Department's Accounting Officer. The annual assurance report includes an overall opinion, based on internal audit's findings from the agreed programme of work. The opinion ranges from no assurance[15], then limited assurance[16], substantial assurance[17] and full assurance[18].

3.2.34 Internal Audit's annual assurance report for 2006-07 concluded that although the extent and nature of improvements in performance would normally have resulted in a substantial assurance rating, the impact of failings in Building Sustainable Prosperity (BSP) Measure 3.3 is so significant that the overall assurance rating for the Urban Regeneration and Community Development Group (URCDG) remains at 'limited assurance', as given in 2005-06. This conclusion was an overall evaluation of the URCDG's activities based on the audit testing which included administration and programme expenditure.

3.2.35 Paragraphs 3.2.36 to 3.2.44 below explain the issues in respect of BSP Measure 3.3 more fully.

Review of findings on BSP Measure 3.3

3.2.36 The Northern Ireland Programme for Building Sustainable Prosperity (BSP) has as its main objective: "to move Northern Ireland to a state of sustainable prosperity in a competitive modern economy by focusing on the restructuring of it's businesses and the key skills development of it's people while maintaining a quality environment". The Department is responsible for the delivery of BSP Measure 3.3, Community Sustainability. This measure is administered by the Voluntary Community Unit (VCU) within URCDG.

3.2.37 The total funding to be spent by DSD under BSP Measure 3.3 is €9million from the EU Commission and Departmental funding of €3.86million. In total this amounts to approximately £8.3million.

3.2.38 When Internal Audit commenced the audit of BSP Measure 3.3 they were advised by VCU that, during routine management checks, significant failings in the management and control system in operation over BSP Measure 3.3 had been identified.

3.2.39 The subsequent Internal Audit work included a detailed and rigorous review of all 43 projects funded under BSP Measure 3.3 to identify the scale of the weaknesses identified, and assess the impact to the management and control system in operation.

3.2.40 The Internal Audit review confirmed that the weaknesses were systemic in nature. These weaknesses included:

- the absence of sufficient documentation to support the decisions to award funding;

15 No assurance – control is generally weak, leaving the system open to significant error or abuse and /or non –compliance with basic controls leaves the system open to error or abuse.
16 Limited assurance – weaknesses in the system of control are such as to put the system objectives at risk and / or the level of non-compliance puts the system objectives at risk.
17 Substantial assurance – while there is, basically, a sound system, there are weaknesses which put some of the objectives of risk and /or there is evidence that the level of non-compliance may put some of the system objectives at risk.
18 Full assurance – there is a sound system of control designed to achieve the system objectives and the control are being consistently applied.

- the absence of proper investment appraisal of expenditure associated with some projects;
- the absence of referral to Department of Finance and Personnel (DFP) for approval of projects greater than £300,000;
- the absence of checks for potential duplicate funding; and
- deficiencies in the Letters of Offer – specific targets and objectives were not always included.

3.2.41 The Internal Audit review supported the corrective action taken by management to address their concerns over the application and award processes. As a result of the action taken 13 projects have been withdrawn in full from BSP Measure 3.3 and the associated expenditure of £1.7 million has been written off as a loss. Ex-gratia payments of £472,000 have been made to a further nine projects. These amounts are fully disclosed in the 2006-07 DSD resource account and total approximately 21 per cent of the total BSP Measure 3.3 funding. Ministerial and DFP approval was received prior to the write off of these amounts. In addition, following investigations in twenty cases of potential duplicate funding, three cases were identified, in two of which internal checks within VCU identified the duplicate funding claim prior to payment processing. In the other case payment had been made resulting in a total loss of £18,530, which was included in the 2006-07 account.

3.2.42 In light of the findings in BSP Measure 3.3 management commissioned a short review of other non EU funded programmes in URCDG. Quality Assurance Improvement Unit (QAIU) reviewed a sample of eight project files from three non EU funded programmes administered by VCU. The programmes chosen were the Outreach Programme, Regional Infrastructure Programme and Women's Groups. VCU is responsible for 403 projects across 17 programmes. QAIU found a number of matters in each of the eight files reviewed. The general theme was the absence of evidence to support the decisions to fund, and assessment of amount of funding awarded. At that time, QAIU concluded that "the issues raised represent fundamental departures from standard procedural requirements". Based on the findings of the exercise QAIU provided "no assurance that similar problems do not exist" in other programmes. However, subsequently VCU Management met with QAIU and by agreement a significant number of the issues raised were cleared. QAIU also provided a number of good practice recommendations which VCU management accepted and actioned. In addition, QAIU acknowledged that the URCDG standard procedures were being applied on newer projects and other testing had indicated a high level of compliance with procedures. As a result, management asked Internal Audit to carry out a small sample of more recent non EU funded programmes project files. Internal Audit concurred with the QAIU findings that in relation to the newer projects improvements had been made, and the

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issues raised in BSP Measure 3.3 were not considered to be widespread.

3.2.43 The Internal Audit work on BSP Measure 3.3 is not complete yet. Further work will confirm that all irregularities have been identified and processed in accordance with EC regulatory requirements. Internal Audit will utilise the work currently being undertaken by EU Verification Unit under Article 10 of EC Reg 438/2001 to confirm the eligibility of expenditure incurred. I will review the outcome of this work in the 2007-08 audit.

3.2.44 I asked the Department to comment on the issues arising with the administration of BSP Measure 3.3. The Department told me that URCDG's objective is to secure substantial assurance for all programme expenditure. Furthermore the Department said that many of the issues identified in the administration of BSP Measure 3.3 were of a historical nature, and that programme completed on 31 March 2007. However the Department noted that lessons have been taken from how the measure was administered and all new programmes administered by the VCU are now delivered in line with the URCDG Common Procedures Guidance, and that training has been given to staff and management within VCU and other recently appointed staff throughout the Group. The Department explained that training focused on the higher risk areas identified from both Directorate management checks and QAIU checks - sufficiency of evidence to support decisions to fund and making payments, updating the Funders' Database, payment processing and management checking. In addition, the Department noted that a number of VCU staff have undertaken CIPFA training, which includes completion of economic appraisals, and that training for other staff on this area is being arranged. As well as this, the Department indicated that the verification of standards by QAIU has been extended to all operational Directorates and the improvements to new programmes already noted will be built upon, and management controls will be consistently applied across the Group. In addition, the Department told me that it has introduced improved practices to ensure that economic appraisals are referred to DFP where appropriate.

3.2.45 In recent years the Department has made significant progress in improving its control and monitoring systems over expenditure on urban regeneration and community development grants and I acknowledge the actions taken by management. However, I am disappointed that examinations of this one programme have uncovered the same types of weaknesses I have reported upon in previous years.

Quality Assurance and Improvement Unit

3.2.46 URCDG established the centralised Quality Assurance and Improvement Unit (QAIU) in October 2005 with the following aims:

- to provide Group Management with independent assurance on the quality and adequacy of evidence held on project files to support funding decisions and claims for payment;

- to assist in the monitoring and evaluation of projects and funding programmes; and

- to make recommendations to improve quality across the Group by addressing any significant concerns identified.

3.2.47 During 2006-07 QAIU function performed checking of decisions to fund and payments made, in four of its offices, Belfast Regeneration Office (BRO), North West Development Office (NWDO), Regional Development Office (RDO) and the Voluntary and Community Unit (VCU). The results of these checks are reported quarterly to the Group Management Board and submitted to the Departmental Management Board for discussion.

3.2.48 In my view the following findings from the work completed by QAIU in 2006-07 highlight the difficulties the Department continues to have in controlling and monitoring this expenditure:

- all payment and decision making checks indicate fluctuations across all offices checked during the year. For example, BRO payment checks indicated a 76 per cent accuracy rate[19] for April to June 2006, 88 per cent accuracy for July to September 2006; a 71 per cent accuracy rate for October to December 2006; and an interim accuracy rate of 81 per cent for January to March 2007;

- in April 2006 QAIU noted that there had been a sharp decrease in the number of the agreed checks performed by management in each of the offices in relation to payments, and expressed surprise in view of the level of payment errors reported in previous Monthly Control Reports. A total of 158 line management checks were performed in April 2006 compared to 506 in March 2006;

- a significant number of QAIU queries on post payment checks carried out were not responded to promptly enough to permit full reporting in each of QAIU's quarterly reports. In my view, it is unacceptable that management are not giving the highest priority to issues raised by QAIU to enable appropriate actions to be taken; and

- during the 2006-07 financial year the most consistently reported causes for errors detected by QAIU were:
  - insufficient documentation to support payments;
  - payments made before CFF grant conditions have been met; and
  - incorrect calculations.

3.2.49 I asked the Department to explain the action taken to avoid the re-occurrence of the issues raised by QAIU and to raise the performance standards within URCDG. The Department told me that a number of steps had been taken to address the issues raised by QAIU. These include:

19 An error is considered material by nature or context if, when extrapolated, it could have an impact on disbursement of public funds.

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- increasing/decreasing the level of first line management checks where appropriate and reviewing this on a monthly basis to address any major issues identified;
- the introduction of an Advance Payment Register to help address the risk of duplicate payments;
- reminders to payments processing staff of the importance of adequate documentation;
- the introduction of a dedicated payment checker in BRO with responsibility for carrying out second line management checks at 50 per cent, rising to 100 per cent for advance payments;
- the introduction of a salary calculator spreadsheet which has already proved to significantly aid accuracy; and
- the delivery of focused in-house training.

In addition, Directors have accepted that responses to QAIU queries on post payment checks need to be made promptly to permit full reporting in each of QAIU's quarterly reports. Steps have been taken to address this matter and some recent improvement has been noted.

3.2.50 The establishment of a centralised QAIU has contributed to the improvements in control realised by URCDG during 2006-07. The actual benefits of the enhanced process, of which QAIU is a part, are starting to bed in. I will continue to review the work of QAIU during my 2007-08 audit.

Line Management Inspection Checks by Offices

3.2.51 URCDG now has an enhanced system of reporting the results of management checks to the Group Management Board at its monthly meeting. As in previous financial years, these checks involve line management in each of the five offices[20] areas performing checks on the decision making and payment processes undertaken by staff on a monthly basis, in relation to the accuracy of decision making and payment accuracy. From November 2006, upon completion of the checks each office must now compile a Monthly Management Checking Report for the Group Management Board providing details of the checks performed; the results; details of any necessary remedial action taken, this can include specifically tailored training sessions; and an assessment of its performance. The monthly reports in themselves are not statistically valid, but give an indication over time of the findings from management checks. They are based on the integrated real time checking process which allows timely corrective action to be taken. A report on Group-wide findings is also provided monthly to the Departmental Management Board.

3.2.52 My staff reviewed the management checks reported during the 2006-07 audit and found the following:

20 Belfast Regeneration Office, Voluntary Community Unit, Regional Development Office, North West Development Office, North Belfast Community Action Unit.

- as with the QAIU checks fluctuations were noted in performance across all offices;
- where training needs were identified by offices these were addressed on a timely basis but the impact of training took some time to realise through an improved performance; and
- management checks were not performed in VCU in April and May 2006 due to reorganisation.

3.2.53 The new reporting format to the Group Management Board is an improvement, and each office is now responsible for not only reporting on management checks but monitoring trends, and taking suitable action in relation to training and re-education of staff.

3.2.54 In my opinion the management inspection checks is a good control regime which helps identify areas of non compliance with URCDG procedures. However, in my view, further evidence is still required on consistent achievement of a level of performance for both decision making and payment accuracy across the whole group.

Overall Conclusion on Qualification

3.2.55 As part of my audit of the Department's financial statements, I am required to satisfy myself, in all material respects, that the expenditure and income shown in their accounts have been applied to the purposes intended by Parliament and conform to the authorities[21] which govern them - that is, that they are "regular". It is my view, on the basis of the audit findings in paragraphs 3.2.33 to 3.2.54 above, that although significant progress has been made, the Department's financial controls and monitoring of expenditure in this area have still not achieved the levels of performance expected when administering public money. As a consequence I have not obtained the required level of assurance that URCDG expenditure has been applied to the purposes intended by Parliament and conforms to the authorities which govern them. I have therefore decided to qualify my audit opinion on the regularity of this expenditure.

New or Ongoing Initiatives within the Urban Regeneration Community Development Group

Risk Based Assessment

3.2.56 In my previous reports on this area I have strongly encouraged the Department to make greater use of risk assessment in its consideration of the required levels of monitoring and verification to ease the burden of grant administration on the voluntary and community sector. I am pleased to see that substantial progress has been made on this during 2006-07.

3.2.57 The VCU piloted the introduction of the risk assessment process in 2005-06, and currently 123 groups out of a possible 182 groups VCU funds (that is 68 per cent) have been subject to a formal risk assessment. The remaining groups funded

21 Authorities include the legislation authorising the expenditure, the regulations issued to comply with that legislation, Parliamentary authority and DFP authority

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are either new (27) and therefore not subject to a risk assessment until after two claims for payment, have had a 100 per cent verification check to supporting documentation, or existing groups (32) which have not been risk assessed yet, two of which are groups currently under investigation.

3.2.58 Internal Audit carried out a review on the VCU pilot in 2005-06 and its report acknowledges that VCU had established the basic key elements of the risk management approach in respect of the grant verification work, and had developed and produced relevant documentation to carry out this process. However, Internal Audit identified a number of improvements which it considered would result in a more robust risk management process, and the Department agreed to incorporate these before the process was rolled out across URCDG.

3.2.59 During the roll out of the risk assessment process to other offices within URCDG, a Policy Framework document for the Risk Management Process was prepared by the Risk Assessment Team and approved by the Project Board. The purpose of this document is to define policy in applying a risk based approach to payment verification and outline high level processes to be used. Detailed procedures are contained within the URCDG procedural guidance.

3.2.60 During 2006-07 staff training on the risk assessment and scoring of URCDG funded groups consisted of:

- a roadshow exercise - communicating the benefits of adopting the risk management policy. This roadshow was also presented to voluntary groups stressing that the same level of controls would still be required and expected at group and project level even though URCDG would not be performing a 100 per cent check on all payment claims. The frequency of checks will be determined by the actual risk assessment of the group, as per the documented policy;

- a formal training course which focused on what is no longer required under the risk based approach, in terms of the level of checking of payments and the supporting documentation; and

- all Risk Assessors received formal training by attending a 2 day training course.

3.2.61 In 2006-07 the risk assessment of groups funded by URCDG has been rolled out to NWDO, RDO and BRO. To date a total of 268 groups have been risk assessed. My staff reviewed a sample of the 2006-07 risk assessments and found all assessments to have been fully documented and the relevant evidence obtained.

3.2.62 The actual risk ratings awarded to date are summarised in Figure 4 opposite.

3.2.63 It is reassuring that only 15 per cent of the groups assessed have been classified as being high risk. Therefore the majority

Figure 4: Risk Assessments in NWDO, RDO and BRO in 2006-07

Risk Assessment Awarded	Number of groups assessed - VCU	Number of groups assessed – NWDO, RDO and BRO	Total Number of groups assessed	Percentage
Low	78	84	162	60
Medium	37	29	66	25
High	8	32	40	15
TOTAL	**123**	**145**	**268**	**100**

Source: VCU and Risk Assessment Team

of groups included in the risk assessment process are subject to a less stringent level of monitoring than previously. In addition, where a group is assessed as medium or high risk, advice is given on what actions need to be taken to improve their corporate governance and financial controls in order to revise the risk assessment rating.

3.2.64 My staff reviewed the quality assurance checks built into the risk management systems as documented in the Risk Management Process Policy Framework Document. A full range of quality assurance checks including accompanied visits and re-performance checks had been built into the framework document. The quantity and type of check emerged as the full requirements of the project were fully determined and debated by the Project Board. As the document was not fully agreed by the Project Board and Group Management Board until March 2007, it was not possible to fully effect the recommended 10 per cent accompanied checks until NWDO was completed although 12 Risk Assessment visits were accompanied by Managers in this period. NIAO acknowledge that the extension of the risk assessment process was the main priority for the Department during 2006-07 and that the development of the quality assurance checks was in its infancy. I recommend that in order to ensure the robustness of the risk management system the agreed level of quality assurance checks should be performed.

3.2.65 The Department advised me that it intends to revisit the original risk assessments performed during the VCU pilot exercise to ensure that the original assessment are of a similar standard to the more recent assessments. I will monitor the results of this exercise during the 2007-08 audit.

3.2.66 The Department told me that URCDG has commissioned an independent exercise to review its current grant administration procedures, to ensure there is a balance between bureaucracy and sufficient control to protect public money. This

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exercise has been completed and the findings considered by the Group Management Board. Work to implement the agreed recommendations has commenced. I will monitor the results of this during the 2007-08 audit.

3.2.67 I am pleased that this risk based approach to monitoring and verification has been expanded across URCDG and I commend the Department on the progress made. I will continue to monitor further developments in this area.

HPSS Superannuation Scheme Resource Accounts Year ended 31st March 2007

EXCESS VOTE

Purpose of the Report

3.3.1 In 2006-07, the Health and Personal Social Services (HPSS) Superannuation Scheme (the Scheme) expended more cash than Parliament had authorised. By so doing, the Scheme breached Parliament's control expenditure and incurred what is termed an 'excess', for which further parliamentary authority is required. I have qualified my opinion on the HPSS Superannuation Scheme's 2006-07 resource account in this regard. The purpose of this report is to explain the reasons for this qualification and to provide information on the extent and nature of the breach to inform the Northern Ireland Assembly's further consideration.

My responsibilities with regard to the breach of regularity

3.3.2 As part of my audit of the HPSS Superannuation Scheme's financial statements, I am required to satisfy myself that, in all material respects, the expenditure and income shown in the Resource Accounts have been applied to the purposes intended by Parliament and conform to the authorities which govern them; that is, they are 'regular'. In doing so, I have had regard to the limits Supply has set on expenditure. In 2006-07 these limits were authorised by the Westminster Parliament.

3.3.3 By expending cash that is unauthorised and is thus not regular, the Scheme has breached Parliament's controls. The scheme is administered by the Department of Health, Social Services and Public Safety (the Department).

Background to the Excess

3.3.4 Parliament, and now under devolution the Northern Ireland Assembly, authorises and sets limits on expenditure on two bases – 'resources' and 'cash'. Such amounts are set out in the Supply Estimates for which approval and authority is given in the annual Budget Orders.

3.3.5 There is, therefore, a single 'Net Cash Requirement' for the Scheme. This is the limit on the amount of cash that can be used in the year to meet the funding requirements of the Scheme.

3.3.6 The Net Cash Requirement also represents the maximum amount of cash that may be provided to the Scheme from the Consolidated Fund. It is the net of the amount of cash that the Department receives relating to income that Parliament has authorised as Accruing Resources. Northern Ireland Assembly/Parliament sets separate limits on the amount of Accruing Resources that can be applied towards meeting the expenditure incurred in the year.

Limits

3.3.7 The limits described above for the Scheme were set out in the Northern Ireland Main Supply Estimates for 2006-07, as amended by the Northern Ireland Spring Supplementary Estimates. The limit on the Net Cash Requirement was set at £4,757,000 for 2006-07. This limit was authorised in the Budget (Northern Ireland) Order 2006, the Budget (No.2) (Northern Ireland) Order 2006 and the Budget (Northern Ireland) Order 2007. The breach reported below is against this limit.

Breach of limit on Net Cash Requirement

3.3.8 The Statement of Supply to the HPSS Superannuation Scheme 2006-07 resource accounts shows that the Net Cash Requirement was £11,981,593.19 which is £7,224,593.19 (151.87 percent) in excess of the amount authorised. It is proposed to ask the Northern Ireland Assembly to authorise a further grant of supply from the Consolidated Fund of £7,224,593.19 by an Excess Vote.

Details and Causes

3.3.9 As explained in the footnote to the Statement of Supply, (page 16 of the resource accounts), the Excess arose mainly because of a lack of estimate cover for changes in working capital other than cash of £16.2 million. The main reason for the changes in working capital other than cash is the movement in Consolidated Funds Extra Receipts (CFERs) in debtors of £14.5 million in respect of pension contributions due. In the 2005-06 accounts there were CFERs in debtors of £14.5 million but in this year's accounts the balance is nil because income received by the Department in 2006-07 aligned more closely with the estimate. This movement has been partially offset by under-expenditure in the pension scheme (£35.2 million) and movements in provision (£26.2 million).

3.3.10 The under-estimation of pension contributions in 2005-06, which gave rise to significant excess resources accruing, appears to be the key factor in this year's Excess Vote. I am surprised that the Department did not anticipate a reduction in debtors, as debtors at 31 March 2006 were unusually high as a result of the CFER debtors as outlined in paragraph 3.3.9. I asked the Department how the under-estimation of changes in working capital other than cash, particularly the impact of debtors, had arisen. The Department told me that there are inherent difficulties ensuring that sufficient estimate cover is provided when dealing with a scheme with a net outturn approximating £572 million for which the

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Government Actuary is only able to provide projected costs to the nearest £100 million. The Department indicated that historically there has been no requirement for estimate cover for movements in working capital because there have been CFERs in debtors to offset these. However, the Department noted that in 2006-07 there were no CFERs in debtors because the estimate for income received was in line with the actual outturn, reflecting accurate estimates for income received. As a consequence the Department noted that the lack of CFERs in debtors, coupled with no estimate cover for the movement in working capital, has resulted in the excess net cash requirement. The Department indicated that it is aware of the requirement to provide robust projections of the annual cover required, but is also conscious of the need not to request significantly more than can be rightly justified, as required by Government Accounting Northern Ireland. The Department told me that it regrets that an excess vote occurred and clearly indicated its commitment to address the matter urgently to avoid a repeat of this situation in the future.

3.3.11 In the report entitled 'Excess Votes (Northern Ireland) 2004-05 (HC 917) the Westminster Committee of Public Accounts reiterated its comments from its previous report in 2005 (HC 311) that it expected all Pension Schemes in Northern Ireland which are subject to resource budgeting to review their estimates procedures, to make sure that they are not vulnerable to the deficiencies which gave rise to an excess. As a result, the Committee expressed its expectation that all Northern Ireland departments have robust procedures in place to estimate and monitor their use of cash and resources.

3.3.12 In response to the Committee's expectations I asked the Department what it had done to ensure that its estimate procedures were sufficiently robust to avoid excesses. The Department has informed me that it has developed a much closer working relationship with the Government Actuary Department (GAD), including several face to face meetings with GAD at which the Department is able to clarify precisely its needs with regards the provision of robust and timely information for the Estimates. In addition to meetings, the Department told me it has maintained direct communication channels with GAD through conversations via telecoms, e-mail and written communication by letter. There have been other improvements, including the agreement of a timetable from GAD for the submission of updated assumptions in respect of the Annual Accounts and agreement from GAD to apply sensitivity analysis on actuarial assumptions in time for the Main and Supplementary Estimates.

3.3.13 The Department also told me that it considers that the process of preparing the resource accounts has also been enhanced through improved working relationships between the Finance Directorate and HPSS Superannuation Branch. The Branch is now more aware of the importance of its input and the need for it to be as accurate as possible in its returns.

Further Action to be taken by the Department to help prevent a recurrence

3.3.14 The Department has advised me that it has made improvements in its projection of the 'Resource' requirement in respect of the Superannuation Scheme. Unfortunately, despite accurately forecasting Resource Requirements, difficulties still exist with estimating its Net Cash Requirement, particularly regarding the projection of the impact within the Estimate of working capital movements. However, the Department is committed to resolving this issue as a matter of urgency. A plan of action is to be drawn up to focus attention on the need to assess movements in working capital before December 2007 – in time for the processing of any required changes through the Spring Supplementary Estimate. Furthermore the Department noted that detailed procedure documentation for the preparation of the Main and Supplementary Estimates, incorporating a checklist for estimating expenditure and accruing resources, is being developed.

Summary and conclusions

3.3.15 In forming my opinion on the HPSS Superannuation Scheme 2006-07 financial statements, I am required to confirm whether, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them. On the basis of my findings above, I concluded that cash net expenditure of £11,981,593.19 was in excess of the £4,757,000 authorised by Parliament resulting in an excess of £7,224,593.19, and that it was therefore irregular. My audit opinion has been qualified in this respect.

Department of Regional Development

Transfer of NI Water Service to NI Water Ltd, and the Associated Write Down of Asset Values

3.4.1 As recorded at Note 36 to the accounts, the Department for Regional Development's Executive Agency Water Service (WS) has transformed into a self-financing Government Owned Company (GoCo) known as Northern Ireland Water Limited (NIW), effective from 1 April 2007. The transfer took place in accordance with provisions in the Water and Sewerage Services (Northern Ireland) Order 2006.

3.4.2 Whereas WS was required to prepare its accounts in accordance with UK Generally Accepted Accounting Practice (UK GAAP), subject to such adaptations as are necessary in the public sector and set out in relevant government guidance, NIW's accounts will be prepared on commercial principles and fully under UK GAAP, in line with the water companies in Great Britain. Under government accounting guidance, infrastructure assets are valued on the basis of depreciated

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replacement cost. Depreciated replacement cost is the value of the asset for existing use from which appropriate deductions may be made to allow for relevant factors such as the age and condition of the asset, which might result in the existing asset being worth less to WS than would a new replacement. At 31 March 2006 NIW reported fixed assets in excess of £6 billion on this basis. NIW however will value its assets at fair value. At 31 March 2007, immediately before the transfer to GoCo status, WS was required to write down the value of its assets in order that its net assets reflected the fair value of the assets and liabilities to be transferred to NIW.

3.4.3 WS and the Department for Regional Development (DRD) carried out extensive work to establish fair value. The best estimate of fair value was considered to be based on the projected discounted cash flows of NIW. This means that the forecast income and forecast expenditure over a period of seven years were estimated and the net income discounted to allow for the time value of money. On that basis, it was concluded that the opening fair value should be £800 million. The model on which these calculations were based was independently reviewed and the independent consultants concluded that the model was sound. The net assets of £822 million shown on the balance sheet of WS at 31 March 2007 include £22 million surplus assets, which are excluded from the fair value assessment on the grounds that they will not be used to generate a return.

3.4.4 Note 14(a) to the accounts shows a net downward adjustment to the value of tangible fixed assets of £5.4 billion. Part of this amount has been recognised as a loss in the Statement of Recognised Gains and Losses (£2.2 billion), on the grounds that it is the reversal of previous revaluation gains. The remainder (£3.2 billion) of the adjustment is shown as a charge to the Operating Cost Statement. The adjustment is an impairment in accounting terminology, but does not imply that there is any operational impairment of the assets.

3.4.5 I examined the assessment of fair value in order to form an opinion on whether the valuation of WS at 31 March 2007 is reasonable and fairly stated in the financial statements.

3.4.6 The assessment of fair value through projected discounted cash flows necessarily depends on prediction of future events. It is an accounting estimate, not measurable with the same degree of precision as other figures in financial statements. There are a number of key assumptions underpinning the model, such as:

- RPI is assumed to be two and a half per cent per annum on operating costs;
- NIW will achieve £44 million of operating cost efficiencies (at 2006-07 prices) by 2010;
- 36,000 pensioner households will opt for meters in the first 2 years;

- levels of bad debts estimated as five per cent for domestic customers and two and a half per cent for non-domestic customers each year (£11.6 million in the first year of full charging); and
- levels of capital expenditure, estimated at £1.6 billion over a seven year period.

3.4.7 The actual fair value of the net assets on the basis of discounted cash flows may be higher or lower depending on the outcome of the assumptions made. For example, although it is assumed that the efficiency targets are challenging, there is potential for NIW to increase its value by outperforming its regulatory targets. The additional efficiency savings in expenditure, compared to the forecast savings, would lead to an increase in net inward cash flow and therefore to an increase in the value of the company as estimated by discounted cash flows. On the other hand if the forecast savings were not achieved, this would lead to a decrease in net inward cash flow, and therefore to a decrease in the value of the company.

3.4.8 The Regulator (the Northern Ireland Authority for Utility Regulation), whose duties include the protection of the interests of customers, ensuring proper service provision, and ensuring that NIW can finance its functions, has stated in a Statement of Regulatory Policy and Intent that it is likely to adopt the Government–determined Regulatory Capital Value (RCV) as the starting point for determining the RCV for price controls. However, it has not yet adopted NIW's model for the purposes of regulation, and will continue to keep it under review over the rest of 2007. Within the regulatory framework there is a series of notifiable items which can allow NIW the opportunity to recover excess expenditure through increased tariffs. That is, in certain narrowly defined circumstances, and having regard to whether any such expenditure is a consequence of management action, the Regulator would be likely to revise price limits in NIW's favour. For as long as NIW can seek relief for notifiable events, it has some limited potential protection against the impact of notifiable events that are beyond management's control.

3.4.9 As a result of the above, in my opinion, £800 million represents a fair value of the net assets of WS (excluding surplus assets and associated liabilities) as at 31 March 2007, and of the opening valuation of DRD's investment in NIW at 1 April 2007.

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Northern Ireland Child Support Agency Client Funds Account 2006-07

Audit Opinion

4.1.1 I have qualified my opinion on the Account on the basis that the scope of my audit was limited because of insufficient evidence to support the accuracy and completeness of the debt balances that total £71 million. The legacy of mis-statement resulting from material levels of error identified in previous years also continues to impact on the accuracy of debt. I have also qualified my regularity opinion as I do not consider the financial transactions conform to the authorities which govern them where the maintenance assessments contributing to the debt balances have been calculated incorrectly.

4.1.2 Under the Government Resources and Accounts Act (Northern Ireland) 2001 I am required to examine and certify the Northern Ireland Child Support Agency Client Funds Account. This report provides a summary of the significant matters arising from my examination and resulting qualification of the 2006-07 account.

Basis of Qualified Audit Opinion

4.1.3 The Northern Ireland Child Support Agency's Client Funds Account is prepared on a cash basis and shows the amounts received by the Agency from non-resident parents, the maintenance subsequently paid over to persons with care and the sums paid to the Department for Social Development, where persons with care are receiving a social security benefit. A note to the accounts discloses amounts outstanding from non-resident parents [Note 6.1].

4.1.4 In 2006-07 the Agency received £13.3 million from non-resident parents and made payments of £9.9 million to parents with care. In addition, £2.8 million was transferred to the Department for Social Development where persons with care were in receipt of benefit.

4.1.5 My opinion on the Child Support Agency's Client Funds Account 2006-07 has been qualified for the following reasons:

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

I will explain these issues further in the following paragraphs.

Absence of adequate support documentation

4.1.6 The Agency maintains accounting records on the Child Support Computer system (CSCS) and on the Child Support 2 (CS2) system. The maintenance outstanding at 31 March 2007 disclosed in Note 6.1 to the Client Funds account is derived from the balances from these two systems, in conjunction with a series of complex manual workarounds. The Agency is unable to produce a list of total debt on a case by case basis from the underlying computer systems. Furthermore, the workarounds result in adjustments being made to the outstanding debt balances in total, rather than by individual debt amounts. In the absence of a satisfactory audit trail, my examination of debt balances was severely limited therefore I conclude that there is a significant uncertainty over the accuracy and completeness of the debt balances reported in the accounts. Consequently I have qualified my audit opinion on the basis that the scope of my audit was limited in this regard. It is my understanding that the Great Britain Child Support Agency has developed a debt book for the Agency. I asked the Agency to comment. The Agency has indicated that work is currently ongoing in Great Britain to reconcile the Great Britain debt book to the general ledger and a similar reconciliation is planned for the Agency's debt book. The Agency told me that in the meantime, caselists are used to identify individual cases within specific debt bands.

Accuracy of maintenance assessments

4.1.7 The accuracy of the calculation of a maintenance assessment for child support is a key element in the process, as the assessment forms the basis of the payments made by non-resident parents to persons with care and also the calculation of the amount due where a debt builds up. Over the past number of years I have qualified the Child Support Agency's Client Funds Account as a result of the extent of the errors my staff found when they sampled a number of cases assessed by the Agency. The errors found in my testing in previous years, and the fact that the Agency is unable to prove to me that the assessments made in previous years and recorded as a balance due have been reviewed and corrected, have led me to conclude that the level of error within the system is still material. However my staff did test a smaller sample of debt balances this year simply as a means of assessing the percentage rate of error per case, without estimating the value of error. My staff examined 30 cases and found 11 had errors, indicating an overall case error rate of 37 per cent (2005-06 - 36 per cent). It is therefore my opinion that the level of error within assessments continues to be unacceptable. I asked the Agency to comment on these levels of error. The Agency has told me that the methodology used to assess accuracy by NIAO and the Agency continues to differ, as it has since 2001-02. The Agency calculates accuracy based on the cash value accuracy of the last assessment. A total of 366 cases were checked by the Agency's Case Monitoring Team in year and a cash value accuracy of 98 per cent was reported. The Agency has reported Cash Value accuracy of 91 per cent (2004-05), 97 per cent (2005-06) and 98 per cent (2006-07). The Agency has commented that it believes the NIAO findings reflect the position with regard to the legacy of historic errors. The Agency told me it continues to focus on accuracy in its day-to-day business and with the

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continued implementation of its Operational Improvement project, the focus on improving accuracy will continue.

Debt levels

4.1.8 The Agency is not allowed to write off debt under the provisions of current legislation. Consequently the gross debt outstanding has continued to accumulate since the Agency's inception in 1993. At 31st March 2007 the gross debt outstanding totalled £71 million before taking account of the provision for bad and doubtful debt that the Agency has estimated to be £41.1 million. This leaves a balance of £29.9 million as collectable debt.

4.1.9 I continue to be concerned at the rising levels of debt in the Agency. The level of collectable debt in the Agency was £29.9 million at 31 March 2007 and £26.3 million at 31 March 2006. In addition there is a further £41.1 million debt due at the 31 March 2007 that is deemed probably and possibly uncollectable (£32.3 million at 31 March 2006). It is clear then that total debt due from non-resident parents (£71 million) is increasing rather than decreasing and now represents almost 5.3 years receipts (4.5 years in 2005-06) in the Agency. Despite the encouragement in my report last year, I am disappointed to note that the Agency's Annual Report still does not include a debt reduction target for 2006-07. I note however that the Agency's Operational Improvement Project Plan includes many new initiatives aimed at improving debt enforcement and reducing the level of debt. The Agency told me that the Ministerial target for collections for 2007-08 will include a monetary amount of arrears to be collected during the year (£1.5 million in 2007-08) and the Agency will source enhanced management information to identify relevant debt streams and target resources in the most appropriate manner. The Agency also told me that ongoing initiatives introduced through the continuing implementation of the Operational Improvement Project, such as the contracting out of debt to debt collection agencies and the continued improvement in enforcement processes, will provide additional opportunities to enhance the amount of debt collected by the Agency. The Agency considers that good progress has been made in establishing contractual arrangements with debt collection agencies, with the first Northern Ireland case referrals to be made in June/July 2007. I will continue to monitor the levels of debt as the Operational Improvement Project is rolled out over the next two years.

Costs of Collection

4.1.10 The Agency has collected £13.3 million in receipts from non-resident parents in 2006-07 at a cost of £16.4 million to the Agency. This represents a cost of £1.23 to the taxpayer for every £1 collected from non-resident parents. The Agency should consider whether this represents value for money and seek ways to reduce this cost of collection ratio. The Agency has told me the £13.3 million represents receipts into the Agency and that it also arranges for maintenance to be paid directly from non resident parents to parents with care. This amounted to £5.4 m in 2006-07, bringing the total maintenance collected and arranged to £18.7 m. The Agency pointed out that the revised cost of collection, including the amounts arranged by the Agency, represents a cost of 88 pence for every £1 collected and arranged. The Agency indicated that it will continue to encourage maintenance direct arrangements between parents and has also set a cost of collection improvement target for 2007-08. I will report on the cost of collection achieved by the Agency next year.

The Way Forward

4.1.11 In my previous report I indicated that the Child Support Reforms introduced in March 2003 had failed to deliver the expected improvements and that Government had announced a thorough review of the Great Britain Child Support Agency's operations. This review culminated initially in the production of the GB Operational Improvement Plan to stabilise and improve performance in the short term; and then building on recommendations arising out of Sir David Henshaw's re-design project, the Government published the White Paper "A new system of child maintenance" in December 2006, that proposed radical changes for the long term policy and delivery arrangements for child maintenance in Great Britain including the creation of a new organisation. These new arrangements are for a simpler system that enables and encourages parents to make their own arrangements; more support for parents who need help in arranging child maintenance; and a smaller but more effective child support system.

4.1.12 The Agency has considered the developments that have taken place in Great Britain and remains in close contact with the GB Agency. In view of the common aims with Great Britain, the Agency produced and commenced the implementation of its own Operational Improvement Project that has been modelled on the Great Britain Operational Improvement Plan. Regarding the Henshaw re-design proposals, the future of the Northern Ireland Agency will be a decision for the newly re-formed Northern Ireland Assembly. In the meantime the Agency has indicated to me that it intends to carry on with the implementation of the Operational Improvement Project as planned and is actively progressing arrangements to work with the new Great Britain organisation in the future.

4.1.13 The three-year Operational Improvement Project aims to address some of the problems that still beset the Agency and result in the qualification, although I recognise that the Agency is dependent upon Great Britain Child Support Agency for any improvements in the information technology services. I will monitor with interest what the future holds for the Agency and will continue to review the

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issues outlined within this report, and report further next year.

Land Registers of Northern Ireland – Surplus Income

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

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

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

4.2.4 A summary of fee income and cost of services for the four years since The Land Registry (Fees) Order (Northern Ireland) 2003 (the 2003 Order) is shown at Figure 1.

4.2.5 The Land Registry accounts for the majority of the surplus in all years, with deficits in 2006-07 of £694,000 and £12,000 incurred by the Registry of Deeds and Statutory Charges Registry respectively.

4.2.6 I am concerned that such large Land Registry surpluses have arisen in the last three years and that there has been an escalating upward trend. I am also concerned that fees charged in respect of the Land Registry may be subsidising deficits in the Registry of Deeds and Statutory Charges Registry.

4.2.7 At present, the surpluses arising in LRNI are surrendered to the Department of Finance and Personnel at the end of each financial year. The 1970 Act, as amended, requires that the fees should meet the operating expenses of the Land Registry that are attributable to its registration functions. It appears however, that the surpluses are being used for

Figure 1:

	2006-07 £'000	2005-06 £'000	2004-05 £'000	2003-04 £'000
Fee Income	25,076	21,618	17,940	13,263
Cost of Service	16,431	15,719	13,944	12,723
Surplus	**8,645**	**5,899**	**3,996**	**540**
Surplus as % of fee income	**34%**	**27%**	**22%**	**4%**

purposes wider than those specifically permitted by the 1970 Act.

4.2.8 I note that the Land Registry (Fees) Order (Northern Ireland) 2007 (the 2007 Order), which revokes the 2003 Order, came into operation on 1 April 2007. The 2007 Order has substantially reduced fees paid for many transactions across the Land Registry. Given the level of surpluses which have arisen in the past four years, I am concerned that there was no Fees Order issued by the Department between 2003 and 2007.

4.2.9 Following the audit of the 2004-05 annual accounts, my staff recommended that the level of fees should be reviewed. LRNI responded by noting that "The process of setting fees is a lengthy one involving the Departmental Solicitors Office, customer consultation, the Minister and the Rules Committee. Fees cannot be quickly changed to match a fluctuating market. A new fees order is currently being progressed. A costing system is also being developed to further improve the setting of fees and ensure the customer gets best value for money.

4.2.10 I am concerned that it has taken until 1 April 2007 to introduce reduced fees. I am further concerned as to whether past surpluses were taken into consideration in setting future fees as it is my understanding that a surplus is expected in the 2007-08 year, despite a reduction in fees in the 2007 Order.

4.2.11 The Agency and its sponsor Department, the Department of Finance and Personnel, told me that:

- LRNI drafted a new Fees Order in 2005, taking into account property prices in 2005. But due to protracted scrutiny and consultation of both the Land Registry Fees Order and the Registry of Deeds Order, which LRNI wished to implement at the same time, LRNI were unable to introduce the new scale fees until April 2007;

- the sharp increase in surplus income within LRNI has been exacerbated in recent years by the unprecedented increase in both the volume of transactions and property prices in Northern Ireland and this looks set to continue; and

- the Land Registry Fees Order 2007 and Registry of Deeds Fees Order 2007 are intended to arrest the escalating upward trend in surplus income but despite this action the continued growth in the property market may well result in a further surplus for the 2007-08 financial year.

4.2.12 I also note that the Department has recently asked the LRNI Accounting Officer to take appropriate steps to ensure more effective financial management of fee income, including more frequent and regular reviews of fees. I would ask the Department and the LRNI to ensure such steps are taken as quickly as possible and take into account past surpluses earned when setting revised fees.

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Land Registry PFI Contract

4.2.13 In July 1999 LRNI entered an agreement with British Telecom for modern geographical information and database systems to process all transactions, transforming the internal business of the organisation. Since the agreement was signed, LRNI has extended the contract, with the implementation period increasing from the two years originally envisaged to five years. Changes to the contract have also increased its capital value from an estimated cost of £46 million at contract signature, to current reported estimates of £78 million. I recently published a report (NIA 168/07-08 18th June 2008) examining the background to the extension of the contract, the project management and governance arrangements, and whether the system is delivering the expected benefits.

Section Five:
Non-Departmental Public Body Accounts 2006-07

Section Five: Non-Departmental Public Body Accounts 2006-07

Northern Ireland Housing Executive

5.1.1 In accordance with Article 21(3) and (4) of the Housing (Northern Ireland) Order 1981, as amended by the Audit and Accountability (Northern Ireland) Order 2003, I have audited the accounts of the Northern Ireland Housing Executive (the Executive) for the year ended 31 March 2007 and I now report thereon.

Housing Benefit

5.1.2 Levels of fraud and error for Housing Benefit are now reported on a calendar year by the Disability, Incapacity & Benefit Security Directorate Standards Assurance Unit of the Social Security Agency. The levels of fraud and error for Housing Benefit for the year 1 January 2005 to 31 December 2005, published in July 2006, highlighted estimated fraud and error of £12.6 million (overpayments) and £1.4 million (underpayments), some 3.7 per cent of housing benefit expenditure. At the date of reporting, draft figures for the year 1 January 2006 to 31 December 2006 are not available.

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

5.1.4 I recognise the considerable efforts and resources committed by the Executive to address fraud and error. The Executive has in place a strategy aimed at reducing the level of fraud and error and the implementation of this strategy is monitored by the Audit Committee and the Board. The Executive informs me that its performance in this area compares favourably with both the reported performance of Local Authorities in Great Britain who also administer Housing Benefit and with that of the Social Security Agency in the administration of other Social Security benefits.

5.1.5 Although the level of fraud and error for Housing Benefit has increased from that reported last year the strategy is aimed at a reduction of 10 per cent on the estimated level reported for April 2005, by December 2008. I would encourage the Executive to continue to employ strategies to reduce the levels of loss.

Invest Northern Ireland

Emerging Business Trust and other Investigations

5.2.1 In February 2006, the Committee of Public Accounts (PAC) considered significant conflict of interest issues relating to the establishment and management of Emerging Business Trust; the standards of corporate governance in the Local Enterprise and Development Unit, and the Department of Enterprise Trade and Investment's stewardship of its non-departmental public bodies.

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

5.2.3 The Department agreed, in the Memorandum of Reply[22] to PAC published in July 2006, that it would provide an update to the committee and provided a progress report in November 2006 and would report further, later in the year, to the local PAC. The Department issued this further progress report in March 2008.

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

Section Six:
General Matters

Section Six: General Matters

Disposal of Surplus Land

The management of surplus land in the public sector

Introduction

6.1.1 The Review into Affordable Housing carried out by Sir John Semple[23] suggested that it would be helpful if I was to carry out a review into the surplus land policies of Departments and how these policies were being operated. This is an area I have examined before in a number of studies, particularly the Management of Surplus Land and Property in the Health Estate (2004), Reinvestment and Reform[24] (2006) and the Transfer of Surplus Land in the PFI Education Pathfinder Projects (2007)[25]. In December 2007 the Public Accounts Committee published a report examining the use made of surplus lands in the PFI Education Pathfinder Projects[26]. That report made a number of key recommendations on maximising the value and use of surplus assets; on obtaining market value for surplus assets; and in protecting the public sector's interests in disposing of surplus assets.

6.1.2 In October 2007, recognising the opportunity to invest substantially more in the public infrastructure, the First Minister, deputy First Minister and the Minister of Finance and Personnel established a Capital Realisation Taskforce (CRT) to identify key surplus assets and the likely level of receipts that could be realised over the lifetime of the Investment Strategy for Northern Ireland.

6.1.3 I have examined the systems and processes departments currently have in place to identify and manage public sector surplus assets. Although narrower than the CRT review, it should be read alongside that report which was presented to the Northern Ireland Executive in January 2008.

Scope

6.1.4 Government departments and their executive agencies, non-departmental public bodies (NDPBs) and Health Trusts all have substantial land holdings. My 2006 report on the Reinvestment and Reform Initiative (see footnote 24), stressed the importance of developing a coherent strategy for the management of existing departmental assets. This requires public bodies to continually review their assets to ensure that they are still required to be held and if not then they should be declared surplus and, if not required by other parts of the public sector, sold to raise money that can be used in other areas. Also where land is identified as surplus it is possible that it could be designated for use in affordable housing as envisaged in Sir John Semple's report.

6.1.5 Total assets within the NI public sector amount to approximately £37.5 billion[27], of which almost £29 billion relates to infrastructure such as roads and water assets. This leaves around £8.5 billion of 'other assets' of which the CRT report has identified in excess of £900 million of assets that could be designated as surplus over the next ten years.

23 Review into Affordable Housing published by the Department for Social Development in Spring 2007
24 Reinvestment and Reform; Improving Northern Ireland's Public Infrastructure HC79 Session 2006-07
25 Transfer of Surplus Land in the PFI Education Pathfinder Projects (2007) NIA 21/07-08
26 Report on the Transfer of Surplus Land in the PFI Education Pathfinder Projects December 2007 Fourth Report Session 2007-08
27 Source – National Assets Register, HM Treasury 2007

6.1.6 Guidance on the management of surplus assets is provided in Government Accounting Northern Ireland (GANI). This sets out the general principles for the identification and disposal of surplus assets including the requirement for continuous review of assets and to dispose of any surplus assets identified within three years. Land and Property Services (formally the Valuation and Lands Agency) has also published guidance on the disposal of surplus property[28].

Investigation and examples of issues arising

6.1.7 In conducting my review I identified the central government bodies that manage the largest amount of assets and completed interviews with key staff in each Department and Agency and examined supporting documentation and systems in place for identifying surplus assets. The Departments and other public sector bodies included in the review were the Department of Finance and Personnel; Department of Health Social Services and Public Safety and its associated Health Trusts; the Department for Social Development; the Northern Ireland Housing Executive; Roads Service; and the Education and Library Boards. The remaining central government bodies were reviewed by means of a questionnaire. I found that all bodies reviewed had policies in place to help identify surplus assets. However, my review identified a number of issues:

- My 2007 report on the Transfer of Surplus Lands in the Education Pathfinder Project stressed the need for the development and implementation of an effective estates strategy for Northern Ireland to ensure that the benefits to be derived from the public sector estate are maximised. At present there is no overall central asset management strategy for public bodies in Northern Ireland. Each body has developed its own strategy (including an assessment of land/property on the estate, an appraisal of operational requirements and a property plan) based on their specific objectives;

- In a number of instances I noted that land was being acquired for projects which ultimately did not proceed within the expected timescale. Where this occurs it is important that the requirement for such land is regularly monitored to ensure that it is still required within a reasonable timescale or else it should be declared surplus. An example of this is in relation to land purchased by Roads Service at Dunmurry Golf Club in 1981 which was intended at that time for use in the Blacks Road/Upper Malone link scheme although this did not proceed. The land is now included in the Belfast Metropolitan Transport Plan for implementation in the period 2015 – 2025. The value of this land at 31 March 2007 was £6.75 million;

- I also noted that DSD still holds significant lands in Antrim, Ballymena and Craigavon that were vested between 1966 and 1970 by the

28 Disposal of surplus public sector property in Northern Ireland, published in July 2005

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former New Town Commissions. These lands are currently valued at £448 million. The Department told me that disposal and development of these lands was delayed by legal action on behalf of former owners, which commenced in late 2003, with a possible resolution only being agreed in June 2007. When the matter is fully resolved, DSD should progress disposal as quickly as market conditions allow reasonable value to be realised and development to proceed;

- I have found that there was a general lack of incentives for bodies to identify surplus land. This is because the additional spending power accruing from disposals falls, in the first instance, to the Executive for reallocation in light of strategic priorities, rather than to the disposing organisation. The 2007 Public Accounts Committee Report (see footnote 26) noted that where surplus assets are to be sold, the ability to retain receipts can act as an incentive to public bodies to maximise income generation. The Committee recommended that DFP should respond sympathetically in priority areas where a business case can be produced that demonstrates the maximisation of receipts and value for money to the public purse; and

- In some instances I noted that a considerable amount of time is taken to dispose of land that has been categorised as surplus – sometimes well in excess of the three years allowed for disposal in Government Accounting Northern Ireland. Whilst I appreciate that legal issues can occur during a disposal that can lengthen the disposal process it is important that such delays are closely monitored and kept to a minimum.

Recommendations

6.1.8 In response to the issues identified I would recommend:

- Consideration should be given to the establishment of a Land Assembly Agency, as envisaged by Sir John Semple, to maintain a register of surplus assets, act as a central challenge function to central government bodies as to the extent of their property holdings and advise Departments and other public sector bodies how to best manage their land assets and on how to dispose of surplus land. This body should also devise a central estate strategy for all central government bodies to follow;

- Considering the previous recommendations of the Public Accounts Committee in its 2007 Report, a method of incentivising public bodies to identify surplus assets and dispose of them promptly should be devised and put in place. I recognise that this will require careful consideration as it will generally not be appropriate to simply allow public bodies to retain the proceeds from the sale of assets as there may be competing pressures from other departments which are considered of more importance. However, I support the Committee's recommendation that some method should be devised to provide public bodies with an incentive for them to carry out a thorough review of their assets in order to identify potential assets for disposal; and

- Assets identified for sale are monitored closely to ensure that they are disposed of within the shortest possible timescale and any legal issues arising are resolved promptly.

Conclusion

6.1.9 This overview was carried out in response to the report into affordable housing by Sir John Semple. I have examined the systems and processes departments currently have in place to identify and manage public sector surplus assets. Although narrower than the CRT review, it should be read alongside that report which was presented to the Northern Ireland Executive in January 2008.

6.1.10 Overall the results of my work have given me reasonable assurance that central government bodies have sufficient procedures in place to identify and manage surplus assets, although there is no doubt that these arrangements could be improved upon as set out in my recommendations.

Northern Ireland Water Contract with Xansa for Customer Billing / Contacts and Mobile Work Management: Compensation for Deferral of Domestic Water Charges

Northern Ireland Water Ltd

6.2.1 The Northern Ireland Water Service (WS) was an Executive Agency within the Department for Regional Development (DRD) with statutory responsibility for provision of water and sewerage services. On 1 April 2007, under the provisions of the Water and Sewerage Services (Northern Ireland) Order 2006, the functions of WS transferred to Northern Ireland Water Limited (NIW), a Government Owned Company (GoCo), of which DRD is the sole share-holder. Direct Rule Ministers intended that the new company should become self financing, through the extension of non-domestic water and sewerage charging and, most crucially, the introduction of domestic charging.

6.2.2 In 2006, following a competitive procurement process, WS appointed Xansa UK, the lead partner in Crystal Alliance, to provide Customer Billing and Contacts (CBC) and Mobile Work Management (MWM) services for a period of six years from 1 April 2007. MWM involves the supply of hardware and software to field staff within a managed IT service. The contract contains provision for early take-on of certain elements of service from 1 October 2006, and domestic billing was to be introduced from 1 April 2007. The projected lifetime costs of the contract

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were £70.6 million for CBC and £22.1million for MWM. NIAO examined the procurement and found that it was appropriately handled, in accordance with advice from the Department of Finance and Personnel's Central Procurement Directorate. NIAO also found that NIW is actively managing the contract and the issues pertaining to it.

6.2.3 Subsequently Steria, an international company, bought out Xansa and NIW's contract is now with Steria. At 30 April 2008, and under the terms of the contract, NIW is completing a 'due diligence' process to confirm that the Steria/Xansa arrangement maintains the required blend of skills and capacity. We understand that a decision will be confirmed in July 2008.

Deferral of domestic charging

6.2.4 This report examines the implications for the operation of the contract following the decision by the NI Executive not to introduce domestic water and sewerage charges in the 2007-08 year. The direct rule minister announced on 26 March 2007 that the introduction of domestic charging would be deferred until 8 May 2007 if powers were transferred to the Northern Ireland Executive. Having taken office, the Northern Ireland Executive announced that domestic water and sewerage charges would not be introduced in 2007-08. This decision, which was beyond the control of either Xansa or NIW, meant that the systems which Xansa had set up to identify the customer base, calculate and issue bills, collect revenue and deal with an increased number of customer contacts, could not be put into operation, at least for the time being. As a consequence, if the expected levels of payment to Xansa were adhered to, then NIW would be paying for services which it was not receiving. On the other hand, if NIW reduced its payments to reflect the level of service actually provided, similar to the previous levels of service, then Xansa would suffer losses in respect of its 'sunk' set up costs and its staffing and other running costs, which were in excess of the reduced requirements.

6.2.5 The CBC services comprise two elements. The amount due for 2007-08 to Xansa under the contract, assuming satisfactory performance, is £10,759,176 - £5,295,216 for Customer Handling, and £5,463,960 for Billing and Collection. In the light of the decision by the Executive not to introduce domestic charges in 2007-08, NIW reduced its monthly payments to Xansa in respect of Billing and Collection, with effect from 1 May 2007. On this basis the annual amount payable would be no more than £1,436,552, which is £4,027,408 less than the full amount due.

6.2.6 However, NIW believes that, in the light of a full re-working of the calculations which underlie the contract, it will make total payments of approximately £9,533,853 for 2007-08 - £4,697,136 for Customer Handling, and £4,836,717 for Billing and Collection. This would leave a shortfall of approximately £1,225,323 compared with the amount originally expected. Xansa is entitled to claim stranded costs from NIW on account of the deferral of domestic charging. It can claim the costs incurred in connection with domestic charging, but it must mitigate these costs as far as possible. These are costs legitimately incurred in ensuring readiness for domestic billing which would not be recoverable under the renegotiated monthly service charges. These are primarily attributable to staffing and associated overheads which were mitigated on an agreed profile during 2007-08. Xansa has lodged a claim for £747,483 with NIW, which NIW has accepted.

The Future

6.2.7 The Executive has announced that domestic customers will make a contribution (over and above the existing contribution through the regional rate) to the funding of water and sewerage services from 1 April 2009. However, continuing uncertainty over the method of collection adds to the compensation which Xansa is entitled to claim. For example, the possibility of collecting the contribution through the rating system has been put forward. Until clarification is provided on the need for NIW to have its own domestic metering, billing and charging systems, Xansa must maintain its basic capacity to provide these services, including at least a skeleton level of staffing.

6.2.8 If NIW never introduces its own domestic metering, billing and charging, then its nugatory payments to Xansa will include not just the stranded incurred costs payment calculated as above, but also compensation and termination payments, and thirdly an element of the milestone payments which NIW made to Xansa under the contract during the implementation phase, which are irrecoverable.

Conclusions

6.2.9 The procurement of the contract for CBC and for MWM was appropriately handled in accordance with advice from the Department of Finance and Personnel's Central Procurement Directorate, and NIW is actively managing the contract and the issues pertaining to it.

6.2.10 Xansa is entitled to payment under the contract in respect of costs unavoidably incurred in connection with domestic charges for 2007-08. These costs will have to be borne by NIW and will impact in turn on charge payers or central government or both.

6.2.11 No further stranded costs will be incurred from the deferral of domestic charging for 2008-09, although compensation and termination costs will be due if domestic customer contributions are collected other than through the contract with Xansa; if the latter is to be the outcome, then an early decision will be less costly than a later one.

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Management of Non-Public School Funds

Introduction

6.3.1 Schools are primarily funded by public money. However they also receive money from voluntary donations and organised events such as concerts. It is NIAO's view that schools should apply the principles of good financial management and control regardless of the source of income.

6.3.2 Guidance provided by the Department of Education on financial management arrangements for controlled and maintained Schools states that 'while voluntary funds are not owned by the Education and Library Board it is unreasonable to expect contributors to these funds to distinguish between them and official monies and it follows therefore that standards of accounting and propriety should be those applicable to public funds.'[29] Parents and those who contribute have a right to expect the same standards of financial control. Therefore the guidance states that the Board of Governors of a school should ensure that there is a safe and efficient system for the custody and control of such funds, including the preparation and audit of an annual account for approval by the Board of Governors. These accounts must be open to inspection on request.

Fraud and Mis-appropriation

6.3.3 In order to establish the likelihood of the mismanagement of non-public funds and to identify any lessons, NIAO carried out an analysis of frauds reported by the five Education and Library Boards (Boards). Over the past five years there have been eight cases involving non-public school funds with an estimated total value of £54,000 and corresponding restitution of £12,000. The cases span all five Boards but the largest and most publicly reported occurred in the Western Education and Library Board (WELB). In this case a principal of a primary school pleaded guilty to a charge of 'furnishing information for an accounting purpose, namely the records of receipts and expenditure for the primary school, dishonestly and with intent to cause loss to another, producing information that was misleading, false or deceptive …in that it failed to show the use and purpose to which monies were to be applied.' The original charges, to which the principal pleaded not guilty, included the theft of approximately £29,000 (of which £25,800 was non-public funds), three charges of obtaining money transfer by deception on dates between June 1997 and June 2004 and one further charge of theft relating to a digital camera, a bed, a video camera and computer equipment belonging to Trustees.[30]

Failures in procedures and controls

6.3.4 The fraud investigation by WELB highlighted a series of procedural and control weaknesses. These included:

- lack of segregation of duties;
- bank statements not reconciled to school records;

29 Department of Education (NI) Guidance on Financial and Management Arrangements for Controlled and Maintained Schools funded under the Common Funding Scheme.
30 The arraignment details are taken from the certificate of order /conviction.

- no bank reconciliations performed on a monthly or regular basis;
- cash withdrawals possible on the basis of only one signatory;
- lodgements of funds withheld; and
- poor record keeping.

6.3.5 The Board of Governors of a school needs to ensure that there is a safe and efficient system for the custody and control of such funds. In addition, the financial management of such funds should include the preparation and audit of an annual account for approval by the Board of Governors, with such an account being open to inspection upon request.

6.3.6 In the WELB case the school's non-public funds were never discussed at the Board of Governors' meetings nor an annual account prepared and independently audited.

6.3.7 Because of the lack of audited accounts and availability of financial information on non-public funds, NIAO has not been able to determine the extent of non-public funds collected or expended on an annual basis.

Actions taken by WELB in response to the fraud

6.3.8 A series of letters, issued to Chairmen of the Boards of Governors and Principals has provided guidance and advice on the appropriate administration of school funds. This has included details of Board of Governor and Principal responsibilities, common recommendations made by Internal Audit with regard to school funds, an example of a typical income and expenditure account, reference to the consultancy service provided by Internal Audit and a list of the minimum requirements that must be in place in respect of school funds. NIAO note that the Belfast Education and Library Board (BELB) has also responded to recent frauds in this area by issuing a letter to school principals reiterating the need for the same level of stewardship for all funds regardless of their source.

6.3.9 To supplement this guidance WELB now deliver training to new principals, which includes reference to non-public school funds. In October 2007, training was instigated for school secretaries because of the pivotal role they play in the management and administration of school funds. This training is crucial to the understanding of the procedures and controls which need to operate in this area.

The Boards' Approach to School Funds

6.3.10 The Boards' Internal Audit services include a series of school audits as part of their annual audit strategy. These audits assess the operation of controls and systems in financial management with varying degrees of emphasis placed on the custody and control of school funds. Previously school audits were carried out on a cyclical basis but the five Boards' revised approach is based upon a measurement of perceived risk. The schools identified for audit are selected using risk factors. These factors are weighted and applied to the list of schools to calculate the overall risk rating. One of the factors is time since last audit. The inclusion of this factor does not in itself guarantee a school audit within a 5 year cycle. In the WELB case cited above, the school had not been the subject of a school audit in the past 12 years. A review of the WELB Schools Audit Strategy 2007-08 indicates that out of 229 schools, 58 per cent have not received a school audit in 13 years.

6.3.11 The number of school audits is, however, expected to reduce at some of the Boards due to the implementation of the Assessment of Best Practice Questionnaire. This was developed to assist principals in fulfilling their role as school managers and to provide reassurance to the Boards and others that best practice is being carried out in the schools. The questionnaire includes a specific section on school funds. Four of the five Boards have issued the questionnaire. Whilst the remaining Board does not intend using the questionnaire, it will continue to carry out school audits. These audits include an audit programme covering school funds.

6.3.12 The questionnaire is a useful tool but should not be considered as a replacement for school audits. The continued programme of school audits acts as an effective deterrent against poor financial management and should be planned to ensure that an unacceptable time lag does not occur. NIAO considers that a cycle of five years to complete a school audit is reasonable.

Conclusions and Recommendations

6.3.13 Improvements to the management and control of non-public monies can be made. The reaction of WELB to the perpetrated fraud discussed above has highlighted actions worthy of consideration by all other Boards and also voluntary and integrated schools.

Policies and Procedures

- A statement similar to that recently made by WELB and BELB needs to be issued by the other Boards reaffirming their policy that procedures and controls applicable to public school funds should also operate for non-public school funds.

- Current procedures and controls for managing non-public funds should be reviewed in order to agree a commonality of approach. This should be outlined in a single document for circulation to all types of schools. The guidance should contain an agreed proforma set of accounts and clearly stipulate that the accounts have to be independently audited and presented to the Board of Governors for inspection. The role and responsibilities of the Board of Governors should also be reiterated at this juncture because of their significance in overseeing the control arrangements.

Training

- Guidance on non-public funds needs to be complemented with appropriate training. Training for new principals at some Boards already includes a session on school funds but NIAO recommends that this be considered as a compulsory element to new principal training.

- Training of school based staff, primarily secretaries, on financial management including school funds has been rolled out recently by WELB. This initiative, which has been reported to be informative and helpful, should be considered for implementation by the remaining Boards. Consideration should also be given to extending this training to Boards of Governors.

Internal Audit

- Annual updates of audit issues that emerge from school visits and the Assessment of Best Practice Questionnaire, including non-public funds, should be circulated by Internal Audit to all schools to inform them of potential matters of concern, and importantly to highlight instances of good practice.

- The Assessment of Best Practice Questionnaire should be used to supplement and inform school audits, not replace them. The completion of the assessment questionnaire ensures that some form of assurance can be provided to the Board on the effectiveness of school management and governance. NIAO therefore recommends that all Boards utilise the questionnaire and that its use is also considered by voluntary and integrated schools.

- The use of risk factors to identify a sample of schools for audit visits is considered appropriate but the selection process should also ensure that each school is subject to audit after a designated period of time. NIAO would consider a five year cycle to be reasonable.

Section Seven:
North/South Bodies

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North/South Bodies

Accountability of North/South Bodies 1999-2007

North/South Ministerial Council

7.1.1 Arising from Strand 2 of the Agreement reached in the multi-party negotiations in Belfast on 10 April 1998, the North/South Ministerial Council (NSMC) was established to bring together those with executive responsibilities in Northern Ireland and the Irish Government to develop consultation, co-operation and action within the island of Ireland - including through implementation on an all-island and cross-border basis - on matters of mutual interest and within the competence of each Administration, North and South. The NSMC, therefore, comprises Ministers of the Northern Ireland Executive and the Irish Government, working together to take forward co-operation between both parts of the island to mutual benefit.

7.1.2 The work of the NSMC is supported by a standing Joint Secretariat, staffed by members of the Northern Ireland Civil Service and the Irish Civil Service. The Secretariat is based in Armagh.

North/South Implementation Bodies

7.1.3 Strand 2 of the Agreement provided for the establishment of six Implementation Bodies through which co-operation would take place on a cross-border or all-island level. The Implementation Bodies are:

- Waterways Ireland
- Food Safety Promotion Board
- Trade and Business Development Body (known as InterTradeIreland)
- Special EU Programmes Body
- North/South Language Body
- Foyle, Carlingford and Irish Lights Commission.

7.1.4 The North/South Language Body which is known in Irish as An Foras Teanga and in Ullans as Tha Boord o Leid – comprises two agencies, an Irish language agency, Foras na Gaeilge, and an Ulster-Scots agency, Tha Boord o Ulstèr-Scotch.

Tourism Ireland Ltd

7.1.5 The NSMC agreed in 1999 to establish a limited company Tourism Ireland Ltd to market the island of Ireland overseas as a tourism destination. It was formed by Bord Fáilte Éireann and the Northern Ireland Tourist Board under the Irish Companies Acts as a company limited by guarantee without a share capital.

Functions of the North/South Bodies

7.1.6 The functions of the North/South Implementation Bodies and Tourism Ireland Ltd may be summarised as follows:

Waterways Ireland

7.1.7 Management, maintenance, development and restoration of the inland navigable waterway system, principally for recreational purposes.

Food Safety Promotion Board

7.1.8 Promotion of and research into food safety together with the communication of food alerts and the surveillance of food-borne disease while promoting scientific co-operation and linkages between laboratories.

InterTradeIreland

7.1.9 Exchange of information and co-ordination of work on trade, business development and related matters.

Special EU Programmes Body

7.1.10 Preparation, central secretariat, monitoring, research, evaluation, technical assistance, development role and grant making in relation to certain EU Programmes including PEACE and INTERREG.

North/South Language Body

7.1.11 Promotion of, support for and research into the Irish language, and the facilitation of its use; and promotion of greater awareness and use of Ulster-Scots language and culture.

Foyle, Carlingford and Irish Lights Commission (Loughs Agency)

7.1.12 Promotion of development of Loughs Foyle and Carlingford including the inland fisheries conservation functions of the former Foyle Fisheries Commission, and development of aquaculture and marine tourism.[31]

Tourism Ireland Ltd

7.1.13 Marketing the island of Ireland overseas as a tourism destination. Working with the two tourist boards on the island, Fáilte Ireland and the Northern Ireland Tourist Board, who are responsible for product and enterprise development and marketing to tourism consumers within the island of Ireland.

Location

7.1.14 The offices of the Implementation Bodies and Tourism Ireland Ltd are located as shown in Figure 1.

Financing

7.1.15 Funding obligations in respect of the six North/South Implementation Bodies are as set out in Paragraph 15 of Strand 2 of the Agreement reached in the multi-party negotiations in Belfast on 10 April 1998. This was given legislative effect by Article 3 of the Agreement of March 1999 between the Government of the United Kingdom of Great Britain and Northern Ireland and the Government of Ireland establishing Implementation Bodies (the "Implementation Bodies Agreement"), which states that: "Each Body shall be funded in accordance with the provisions of the Multi-Party Agreement on the basis that it constitutes a necessary public function". Part 7 of Annex 2 of that Agreement provides common provisions relating to the Bodies and states at paragraph 2.1 that "The Body will receive grants from money voted by the Northern Ireland Assembly and Dáil Éireann. NSMC

31 The Commission was also to assume the functions of the Commissioners of Irish Lights, but that has not happened and the Commissioners continue to function separately. As a result the body is usually known as the Loughs Agency.

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Figure 1:

Name of Body	Headquarters	Other offices	Number of Employees during 2006
Waterways Ireland	Enniskillen	Athlone, Ballyconnell, Carrick-on-Shannon, Coleraine, Kilclare (Leitrim), Dublin, Killucan (Westmeath), Portumna, Scarriff, Tullamore	348
Food Safety Promotion Board	Cork	Dublin	33
InterTradeIreland	Newry	None	41
Special EU Programmes Body	Belfast	Monaghan, Omagh	45
North/South Language Body **Foras na Gaeilge/ Irish Language Agency** **Ulster-Scots Agency/ Tha Boord o Ulstèr-Scotch**	 Dublin Belfast	 Belfast Raphoe	 43 10
Loughs Agency	Derry / Londonderry	Carlingford	53
Tourism Ireland Ltd	Dublin Coleraine	Represented in 22 markets overseas	147

will, with the approval of the Finance Ministers, make recommendations as to the amount of such grants."

7.1.16 In respect of Tourism Ireland Ltd, the Company's Memorandum and Articles of Association and funding arrangements were agreed at a meeting of the NSMC in October 2000.

7.1.17 Funding for each North/South Implementation Body and for Tourism Ireland Ltd is determined following consideration of an annual business plan prepared by each Body. These plans are subject to approval by Ministers in the relevant funding Departments and the Finance Departments, and the NSMC.

7.1.18 Funding to the North/South Implementation Bodies and Tourism Ireland Ltd is subject to the normal process of Assembly and Oireachtas approval and scrutiny through the relevant Estimates and Budget processes following recommendation by the NSMC. The contributions to the budgets relate to the benefits accruing to each jurisdiction.

7.1.19 The Bodies must comply with the provisions of a Financial Memorandum drawn up by the relevant funding Departments and the Finance Departments of the two jurisdictions. The Financial Memorandum specifies the detailed financial arrangements including those in relation to accounts, accounting year and currency.

7.1.20 The approval of the Finance Ministers and the NSMC is required for the remuneration, grading, numbers and conditions of service of the staff of the Bodies.

7.1.21 Figure 2 shows which Departments fund each Body, and in what proportions.

Figure 2:

Name of Body	Northern Ireland funding Body	NI % funding	Irish funding Body	Irish % funding
Waterways Ireland	Department of Culture, Arts and Leisure	15% current expenditure; 100% of capital expenditure in NI	Department of Community, Rural and Gaeltacht Affairs	85% current expenditure; 100% capital expenditure in Ireland
Food Safety Promotion Board	Department of Health, Social Services and Public Safety	30%	Department of Health and Children	70%
InterTradeIreland	Department of Enterprise, Trade and Investment	33%	Department of Enterprise, Trade and Employment	67%
Special EU Programmes Body	Department of Finance and Personnel	Variable depending on programmes, but usually around 60%	Department of Finance	Variable depending on programmes, but usually around 40%
North/South Language Body	Department of Culture, Arts and Leisure	Foras na Gaeilge/ Irish Language Agency 25%; Ulster-Scots Agency/ tha Boord o Ulstèr-Scotch 75%	Department of Community, Rural and Gaeltacht Affairs	Foras na Gaeilge/ Irish Language Agency 75%; Ulster-Scots Agency/ tha Boord o Ulstèr-Scotch 25%
Loughs Agency	Department of Agriculture and Rural Development	50%	Department of Communications, Energy and Natural Resources	50%
Tourism Ireland Ltd	Department of Enterprise, Trade and Investment (channelled through Northern Ireland Tourist Board)	26%	Department of Arts, Sports and Tourism (channelled through Fáilte Ireland)	74%

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Governance

7.1.22 The governance arrangements for the Implementation Bodies are set out in the Implementation Bodies Agreement. They are summarised in Figure 3. The governance arrangements for Tourism Ireland Ltd which are set out in its Memorandum and Articles of Association are also shown.

7.1.23 The Chief Executive of each Body (or Agency within the Language Body) is appointed by the funding Departments as Accounting Officer/Accountable Person (which is essentially the same concept as Accounting Officer).

Accountability and Reporting Arrangements

7.1.24 Under the Implementation Bodies Agreement, each Implementation Body is required to prepare a statement of accounts in respect of each year in a form which complies with guidance issued by the Finance Departments.

Figure 3:

Name of Body	Accounting Officer(s)	Board Details
Waterways Ireland	Chief Executive, appointed by NSMC	No Board is required under the Implementation Bodies Agreement.
Food Safety Promotion Board	Chief Executive, appointed by NSMC	NSMC also appoints a 12 member Advisory Board (remunerated) and an 18 member Scientific Advisory Committee (not remunerated).
InterTradeIreland	Chief Executive, appointed by the NSMC	NSMC appoints a 12 member Board (remunerated).
Special EU Programmes Body	Chief Executive, appointed by NSMC	No Board is required under the Implementation Bodies Agreement.
North/South Language Body	Chief Executives of Foras na Gaeilge/ the Irish Language Agency and the Ulster-Scots Agency/tha Boord o Ulstèr-Scotch both appointed by the Board with the approval of NSMC	NSMC appoints a 24 member Board (remunerated), of whom 16 are responsible for exercise of functions through Foras na Gaeilge/ the Irish Language Agency, and 8 for exercise of functions through the Ulster-Scots Agency/tha Boord o Ulstèr-Scotch.
Loughs Agency	Chief Executive, appointed by the Board with the approval of NSMC	NSMC appoints a 12 member Board (remunerated).
Tourism Ireland Ltd	Chief Executive, appointed by the Board, with the approval of NSMC	NSMC appoints a 12 member Board of Directors (remunerated).

7.1.25 The guidance requires compliance with generally accepted accounting practice (GAAP) in most respects and is similar to the guidance under which all public bodies in Northern Ireland and many public bodies in Ireland prepare their accounts. Pensions are accounted for differently in the two jurisdictions because of the different accounting regimes in operation. Tourism Ireland Ltd accounts for pensions in line with the method used by non-commercial state-sponsored bodies in the South. The Finance Departments have directed that the other bodies should, for the time being, account for the proportion of pension costs borne by the Northern Ireland funding Departments in the same way as other Northern Ireland public bodies and that the proportion of pension costs borne ultimately by the Irish Exchequer should be accounted for by recognising pension costs only as they fall due. This treatment is being kept under review.

7.1.26 The Bodies prepare their annual accounts as at 31 December, in line with the Irish practice.

7.1.27 There is currently no requirement for Implementation Bodies to prepare a remuneration report. However, the accounts disclose certain information about the remuneration of Board members and senior managers.

7.1.28 The accounting arrangements for Tourism Ireland Ltd are that it complies with the Companies Acts 1963-2006 and with the guidance issued for Implementation Bodies, where applicable.

Audit and Accountability

7.1.29 The Implementation Bodies Agreement requires the Implementation Bodies to submit their annual accounts to NSMC, to the Comptroller and Auditor General for Northern Ireland and the Irish Comptroller and Auditor General (the C&AGs). Under the terms of the Financial Memoranda which the funding Departments have issued, the Bodies must do this by 1 April each year.

7.1.30 The Agreement requires the C&AGs in co-operation to examine and certify the accounts, and the audited accounts must be laid before the Northern Ireland Assembly and both Houses of the Oireachtas. It is a requirement of the Financial Memoranda that this should be done by 30 June.

7.1.31 In general, the Northern Ireland Audit Office is the lead partner in the audits of Bodies whose headquarters are located in Northern Ireland, and the Office of the Irish C&AG leads on the others.

7.1.32 In general, an internal audit service is provided to the Bodies by the Internal Audit Unit of the funding Department in the jurisdiction where the Body's headquarters are located. The Food Safety Promotion Board sources its own internal audit service. Waterways Ireland has its own in-house internal audit section; however, its audit reports are provided to its funding Departments for scrutiny/consideration.

7.1.33 Tourism Ireland Ltd is audited by the Irish C&AG. NIAO provides assistance in the completion of the audit. The C&AG for Northern Ireland provides a report to the NI Assembly following his review of the accounts. To date, no matters have been raised in these reports.

7.1.34 All the Implementation Bodies and Tourism Ireland Ltd have Audit Committees.

7.1.35 Figure 4 summarises the membership of their audit committees.

7.1.36 The Implementation Bodies Agreement also brought the Implementation Bodies (but not Tourism Ireland Ltd) within the jurisdiction of the NI Assembly Ombudsman and of the Irish Ombudsman, and required the ombudsmen to liaise and consult with each other.

Preparation and Audit of Annual Accounts

7.1.37 The first period of account for the Implementation Bodies ran from 2 December 1999 until 31 December 2000 and the first period of account for Tourism Ireland Ltd was 2001. Thereafter the accounting periods have coincided with each calendar year. In the early years, accounts were often presented late and the audit process was often protracted. This was because Implementation Bodies required some time to reach staffing complement and because systems required time to be developed and embedded.

7.1.38 Figure 5 shows the amount spent by each Body and the value of its net assets, in the latest year for which the accounts have

Figure 4:

Name of Body	Membership of Audit Committee	No. of meetings in 2007
Waterways Ireland	2 executive members and 2 non-executive members	3
Food Safety Promotion Board	1 Advisory Board member and 3 other non-executive members	2
InterTradeIreland	3 Board members	3
Special EU Programmes Body	2 non-executives and 1 representative each from the 2 funding Departments	4
North/South Language Body	Ulster-Scots Agency: 3 Board members and 1 independent. Irish Language Agency: 3 Board Members and 2 independents	4 4
Loughs Agency	4 Board members	2
Tourism Ireland Ltd.	4 non-executive directors	4

Figure 5:

Name of Body	Expenditure		Net Assets		Latest accounts certified
	£ m	€ m	£ m	€ m	
Waterways Ireland	22.0	32.3	463.0	687.2	2006
Food Safety Promotion Board	5.9	8.6	1.1	1.6	2006
InterTradeIreland	9.6	14.1	1.1	1.6	2006
Special EU Programmes Body	116.6	171.1	0.2	0.3	2006
North/South Language Body	14.7	21.3	0.8	1.1	2003
Loughs Agency	3.9	5.7	3.6	5.3	2006
Tourism Ireland Ltd	53.6	78.7	2.3	3.5	2006

been certified by the C&AGs (or, in the case of Tourism Ireland Ltd, by the Irish C&AG alone).

7.1.39 The accounts of the Irish Language Agency and the Ulster-Scots Agency have to be consolidated for final audit and certification. The audit of the consolidated accounts for 2004 has been completed but the audit certificate cannot be issued until accounts approved by the board of the North/South Language Body are sent to the C&AGs. Substantial audit work has been completed on the 2005 and 2006 accounts of the Irish Language Agency and the Ulster-Scots Agency. However, the accounts of the Irish Language Agency need further adjustment before they are ready for consolidation.

Audit Issues

7.1.40 In the years following their establishment some of the North/South Bodies experienced difficulties which led to qualified opinions on their financial statements and, in some cases, the issue of reports which were appended to the audit certificates. Most of these issues had their roots in the difficulties inherent in setting up new bodies with cross - border responsibilities, coupled with lack of resources in the early years of establishment.

7.1.41 The following is a synopsis of the issues that arose in each body with an indication of the action taken to resolve them.

Waterways Ireland

7.1.42 The two issues arising in this Body related to:

- Recording and accounting for fixed assets; and

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- Weaknesses in project management procedures.

Recording and accounting for fixed assets

7.1.43 The difficulties in relation to recording and accounting for fixed assets arose in the context of the transfer of very substantial asset portfolios to Waterways Ireland from the Department of Arts, Heritage, Gaeltacht and the Islands, in the South, and the Rivers Agency, in the North. Prior to the establishment of Waterways Ireland, the Department of Arts, Heritage, Gaeltacht and the Islands had not undertaken a complete physical inventory of assets for a number of years. Accordingly, Waterways Ireland had to prepare a register of the assets taken over and carry out valuations.

7.1.44 From 2000 to 2002 we[32] issued qualified opinions on the financial statements of Waterways Ireland arising from the omission of certain fixed assets. Waterways Ireland did prepare a satisfactory asset register in due course and we have given unqualified opinions on the financial statements for 2003 and later years.

Weaknesses in project management procedures

7.1.45 A number of weaknesses in project management procedures were noted during our audit of the financial statements for the year 2000. These had to do mainly with the lack of investment appraisals for capital projects and the lack of formal documented project management procedures. Waterways Ireland subsequently took steps to strengthen its procedures in this area. In the course of the 2006 audit it was noted that project appraisals are being carried out for new capital projects. A new project management system was being piloted with a view to its extension to all major projects.

Food Safety Promotion Board

7.1.46 The issues arising in relation to the Food Safety Promotion Board (FSPB) concerned procurement practices.

7.1.47 In relation to the 2000 financial statements we reported that it was not possible to confirm that the control and monitoring of the process for the engagement of an advertising agency was adequate as public relations consultants were largely responsible for the process and had retained most of the relevant documentation.

7.1.48 FSPB must follow public procurement procedures in placing any contract. The application of such procedures was not evidenced by supporting documentation. In particular, in view of the size of the FSPB's advertising budget of €952,300 (£581,786), the tender should have been advertised in the Official Journal of the European Union.

7.1.49 The FSPB also sought proposals for research projects during 2000. Major contracts totalling €l.68m (£l.02m) were awarded in late December 2000. Our examination of the procedures adopted in selecting the research contracts highlighted two weaknesses.

32 The opinions/findings discussed in this part of the report (with the exception of opinion/findings in respect of Tourism Ireland Ltd) represent joint findings of the C&AG for Northern Ireland and the Irish C&AG.

- 80% of the funding was paid on the signing of the research contracts, possibly exposing the Board to loss if the contract did not progress satisfactorily; and

- the Board had not established a mechanism to satisfy itself that the costs expended by grantees were correct.

7.1.50 Subsequently, the Board revised its funding schedule, so as to pay less of the funding upfront. It also enhanced controls over payments.

7.1.51 We also reported on a number of issues which arose in relation to managing the procurement and the fit-out of the Board's Cork office in 2001. The Board entered into a 25 year lease of a building. The annual rental and service charges amount to €351,717 (£218,716). Fixed asset additions in the accounts, most of which related to this building, amounted to €2.06m (£1.285m). In our opinion, the manner in which the office space requirement for the Board was determined and the way in which the fit-out of the premises was managed - in particular, the absence of investment appraisal and competitive tendering for work and supplies - suggested that best value for money may not have been obtained.

The North/South Language Body

7.1.52 The difficulties in the North/South Language Body concerned three matters.

- Regularity of expenditure;

- Shortcomings in internal control; and

- Financial reporting.

Regularity

7.1.53 Under the governing legislation, the arrangement for the payment of grants by a North/South Body must be approved by the NSMC and the Finance Ministers in both jurisdictions. In 2000, no such approval had been given in the case of the North/South Language Body and, therefore, the total grant expenditure incurred by the Body of €6,036,055 (£3,803,024) did not comply with the financial authorities which governed it. As a consequence, we qualified our certificate on the 2000 financial statements. The Body subsequently sought and received the necessary approval from the NSMC and the two Finance Ministers.

7.1.54 A second regularity issue concerned the scope of the remit of the Ulster-Scots Agency. The governing legislation defines the functions of the Agency as "promotion of greater awareness and use of Ullans and of Ulster-Scots issues, both within Northern Ireland and throughout the island." In effect, this restricts the promotion of Ulster-Scots issues to the island of Ireland.

7.1.55 In 2001, Agency representatives made visits to the United States, Canada and Italy at a cost of £56,377 (€89,480). The Agency's statement of the benefits derived from these visits indicated that it considered the promotion of Ulster-Scots

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issues outside Ireland as an end in itself. In our opinion, the main objective of these visits was the promotion of Ulster-Scots cultural issues outside Ireland.

7.1.56 We were of the opinion that the legislation does not permit the Agency to undertake activities to promote greater awareness and use of Ullans and of Ulster-Scots cultural issues outside the island of Ireland and we qualified our opinion accordingly.

7.1.57 In 2005, following legal advice, the Sponsor Departments agreed a protocol governing the approval, processing and accountability of funded activities and travel outside the island of Ireland by the Ulster-Scots Agency (the Protocol). The Protocol, which was adopted by the Agency states that "the Agency can legitimately engage, if it chooses, with cultural and linguistic organisations and individuals outside Ireland and with the wider Ulster-Scots Diaspora in the furtherance of promoting Ulster-Scots language or cultural issues within the island of Ireland".

Shortcomings in internal control

7.1.58 The Irish Language Agency makes grant payments under a number of programmes designed to promote and advance the Irish language. In order to be satisfied that grants paid were applied for the purpose intended, the Agency ought to document the results of its inspection of grantee records or obtain from grantees substantiating documentation in the form of audited accounts or invoices or certified returns of expenditure. Based on a review of all grant payments, we estimated that £720,000 (€1,142,764) of grant expenditure did not have substantiating documentation in 2000. As there was no other satisfactory way that we could confirm that these funds were applied for the purposes intended, we qualified our opinion on the 2000 financial statements.

7.1.59 We also noted that no formal funding criteria for projects had been established by the Board in relation to grants paid by the Irish Language Agency, that there was no standard appraisal mechanism and that record keeping in relation to projects was deficient. In subsequent audits we noted that the Department of Community, Rural and Gaeltacht Affairs and the Department of Culture, Arts and Leisure commissioned an external review of the Agency's grant administration system. This review took place in March 2004 and found continued weaknesses in that system. We note that by November 2005 the Chief Executive Officer responded to the review and confirmed that at that point in time the main recommendations had been implemented.

7.1.60 There were also shortcomings in the internal control systems of the Ulster-Scots Agency. The Northern Ireland Department of Education's Internal Audit Unit carried out an investigation into the systems in operation within the Agency in 2001. Internal Audit reported in October 2001 that a system of internal control was largely non - existent. However, by April 2003, Internal Audit was able to report that a

Policy and Procedures Manual had been put in place to provide the Agency with guidance to enable it to act in a manner that is expected of a public sector body.

Financial reporting

7.1.61 The North/South Language Body has had difficulties in discharging its accountability obligations since establishment. Both the Irish Language Agency and the Ulster-Scots Agency are required to produce annual financial statements and these are then consolidated to form the financial statements of the Body.

7.1.62 A draft of the annual financial statements for the Irish Language Body for the period ended 31 December 2000 was only presented for audit in October 2002. The account was the subject of subsequent adjustments and a final version suitable for consolidation into the account of the North/South Language Body only emerged in mid-2004.

7.1.63 The Ulster-Scots Agency submitted a statement of accounts for the period ended 31 December 2000 to the C&AGs in January 2002. This was returned because the format did not comply with the Finance Departments' guidance.

7.1.64 Delays in producing financial statements and completing the audits have continued and, as is apparent from paragraph 6.4.38, this is the only Body which has yet to produce audited financial statements for the years 2004, 2005 and 2006.

Foyle, Carlingford and Irish Lights Commission (Loughs Agency)

7.1.65 The issues in relation to this Body were:

- Late presentation of financial statements; and
- Accounting for pensions.

Late presentation of financial statements

7.1.66 The Agency submitted draft financial statements for the year 2000 for audit in June 2001 but these were not in the format required for North/South Bodies. Various drafts were required until we were satisfied that the format and content were acceptable. Furthermore, the financial statements for the Agency's predecessor body, the Foyle Fisheries Commission, for the period ended 1 December 1999 were not certified until March 2003. The Loughs Agency's financial statements for the period ended 31 December 2000 were signed in June 2003.

Accounting for pensions

7.1.67 From 2000 to 2005 qualified opinions were issued arising from limitation in audit scope because no actuarial review had been commissioned since 1993. Therefore, we were unable to assess whether a provision in respect of pension liabilities shown in the financial statements was sufficient. A valuation was carried out in 2006 and we issued an unqualified opinion.

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Tourism Ireland Ltd

7.1.68 In 2001, the Irish C&AG reported on weaknesses in procurement arrangements in respect of professional services. The objective of the company was to be operational for the 2002 tourist season but, due to lack of support staff, it had to rely on professional services and externally sourced support. The weaknesses arose in this context and have since been addressed.

NIAO Reports 2007-2008

Title	HC/NIA No.	Date Published
2007		
Internal Fraud in Ordnance Survey of Northern Ireland	HC 187	15 March 2007
The Upgrade of the Belfast to Bangor Railway Line	HC 343	22 March 2007
Absenteeism in Northern Ireland Councils 2005-06	-	30 March 2007
Outpatients: Missed Appointments and Cancelled Clinics	HC 404	19 April 2007
Good Governance – Effective Relationships between Departments and their Arms Length Bodies	HC 469	4 May 2007
Job Evaluation in the Education and Library Boards	NIA 60	29 June 2007
The Exercise by Local Government Auditors of their Functions	-	29 June 2007
Financial Auditing and Reporting: 2003-04 and 2004-05	NIA 66	6 July 2007
Financial Auditing and Reporting: 2005-06	NIA 65	6 July 2007
Northern Ireland's Road Safety Strategy	NIA 1	4 September 2007
Transfer of Surplus Land in the PFI Education Pathfinder Projects	NIA 21/07-08	11 September 2007
Older People and Domiciliary Care	NIA 45/07-08	31 October 2007
2008		
Social Security Benefit Fraud and Error	NIA 73/07-08	23 January 2008
Absenteeism in Northern Ireland Councils 2006-07		30 January 2008
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Printed in the UK for the Stationery Office on behalf of the Northern Ireland Audit Office
PC2287 07/08

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