



Land & Property Services
Seirbhísí Talún & Maoine

**TRUST STATEMENT –
RATE LEVY ACCRUALS ACCOUNT**

ANNUAL REPORT & ACCOUNTS

FOR THE YEAR ENDED 31 MARCH 2017



Land & Property Services

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Laid before the Northern Ireland Assembly by the Department of Finance under section 11(3)c of the
Government Resources and Accounts Act (Northern Ireland) 2001

on

23 November 2017



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DIRECTOR'S REVIEW

FOREWORD

Introduction

I am pleased to present the 2016/17 Land & Property Services (LPS) Annual Report and Trust Statement Accounts, also known as the LPS Rate Levy Accruals Account.

Firstly, I would like to thank everyone in LPS for their hard work and commitment during the past year, which has meant that we have continued to build on the good progress made in 2015/16. I would also like to thank our Trade Union colleagues for their constructive engagement during the year.

We have achieved, or substantially achieved, the majority of our 2016/17 business targets and the Annexes provide a more detailed summary of our work. However, there are some aspects I would particularly like to highlight as follows:

- Reduction of actionable rating debt to £69.7 million, which was an improvement against the target of £85.1 million. This equates to a reduction of £11.5 million from the previous year end figure.
- Reduction of the overall rating debt to £131.2 million, a reduction of £11 million from the previous year end.
- Positive Penny Product outturns (ie more revenue raised than forecast under the rate setting process) for 9 of the 11 District Councils and total finalisations of -0.13%, well within the 2% target.
- Collecting £1,244.5 million in rates revenue against a target of £1,225 million.
- Processing 100% of the applications received by 31st March 2016 against the new Valuation List, these were all completed by 28th February 2017 target.
- Achieved 94.7% accuracy as measured by Standard Assurance Unit in relation to Housing Benefit payment against a target of 91%.

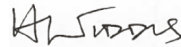
Looking Ahead

Looking ahead, we have very substantial challenges to meet, including:

- Welfare Reform, which requires the delivery of a new Rate Rebate scheme;
- Maintaining or improving operational performance throughout a period of increasing pressure on resources; and

- The impact of a delay in the striking of a Regional Rate for 2017/18 and the corresponding delay in issuing rate assessments.

It is also vital that we continue to focus on improving the quality of our service to customers and building and maintaining our partnerships with Councils at this important time. We will also continue to invest in our staff to support the achievement of our business objectives. I look forward to another year of continuing to improve our business performance and meeting the challenges that lie ahead.



Hugh Widdis
Accounting Officer

24 October 2017

PROFORMANCE AND ACCOUNTABILITY REPORT

DIRECTOR'S REPORT

Accounts Direction

These are the audited Accounts of LPS Rate Levy Accrual Account in respect of the collection of rates only for the financial year ended 31 March 2017. The production of the Trust Statement was introduced in 2010/11 to comply with the Government Financial Reporting Manual. The Trust Statement shows the revenue collected by Land & Property Services for the Consolidated Fund and falls outside the boundary of the Department's Annual Report and Accounts. These Accounts have been prepared in accordance with the Department of Finance (DoF) Accounts Direction issued in compliance with the Government Resources and Accounts Act (Northern Ireland) 2001.

Our Vision is:

'Together delivering excellence and innovation in the provision of land and property services upon which our customers can rely'

Our Purpose is:

We will provide our customers with an effective, efficient, timely and trusted service by:

- **Providing** easily **accessible** services underpinned by excellent customer service;
- **Mapping a single view** of land and properties accessible in multi-formats;
- **Registering** properties **promptly**;
- **Accurately valuing** land and buildings;
- **Efficiently collecting** rates from households and businesses

We will invest in our future by seeking opportunities to generate revenue from our land and property information assets.

Our Strategic Goals:

By 2020, we will:

Customers	Deliver excellent and innovative products and services accessible through digital and other channels.
Operations	Provide technology enabled, world class, end-to-end land and property services which meet the needs of our customers and stakeholders.
Business Development	Optimise revenues from our land and property resources through innovation, partnership and investment in people, processes and technology.
Data	Collect, secure and use data to provide quality services for customer and business needs.
Organisation & People	Be an integrated and cohesive organisation with a highly-skilled, knowledgeable and flexible workforce.

High level processes – Build to Bank

The “build-to-bank” process of map, register, value, bill, collect, recover is the core of the LPS target operating model. Delivered by our people and technology, this end-to-end process results in the key outcomes that support our Ministerial targets. LPS has two Ministerial targets within the DoF 2016/17 Business Plan that focus on maximising rate collection.

To help us deliver these targets we will structure our resources to ensure the integrated end-to-end process is delivered in the most efficient and effective manner. All of this is supported by the excellent services delivered by every part of LPS, each vital in their own right, which work together to achieve our goals.

LPS Management Board

During this reporting period, Colum Boyle was Chief Executive and was responsible to the Minister of Finance and Permanent Secretary for the management of LPS performance and operations. He was assisted in the management of LPS by the Management Board. The Management Board meet on a monthly basis.

The Management Board directs the strategic management of LPS by reviewing its strategic options, setting its corporate direction, supporting the transformation plan, monitoring performance at corporate level and ensuring adequate governance controls.

The membership of LPS Management Board in 2016/17 is detailed below.

LPS Management Board in 2016/17

Colum Boyle	Chief Executive
Alan Bronte	Director of Valuation/Commissioner of Valuation
Christine Farrell	Director of OSLR/Registrar of Titles
John Deyermond	Acting Head of Mapping
Ignatius O'Doherty	Head of Data Management (April-June 2016)
Judith Andrews	Acting Director of Revenues and Benefits
Chris Smart	Head of Organisational Development
Nigel McVittie	Director of Digital Services (since June 2016)

Business Performance and Risk Management

During 2016/17, business performance against key Departmental targets was monitored by the Management Board on a monthly basis. Key Departmental targets for the rating service, associated risks and other risks were monitored by the LPS Management Board and the Audit and Risk Committee.

Within the context of implementing our strategic aims with regards to rate collection, two Ministerial Targets were identified for the 2016/17 year. These were:

- To collect £1,225 million of rates; and
- To reduce the 'actionable debt' (ie debt not in recovery) to £85.1 million by 31 March 2017.

Ministerial Target 1: To Collect £1,225 million of Rates by 31 March 2017

Month Ending	Target Rates Collected 2016/17	Actual Rates Collected 2016/17	Variance from Target
	£m	£m	£m
March 2017	1,225	1,244.5	19.5

The target of £1,225 million represented a £25 million (or 2.1%) increase on the 2015/16 target, against an overall uplift in the district and regional rate of 1.55%. Despite this, the cash collection increased to £1,244.5 million and represented an increase of £28.5 million (or 2.3%) over the 2015/16 position and £19.5 million (or 1.6%) over the target.

Ministerial Target 2: To Reduce the Actionable Rating Debt to £85.1 million by 31 March 2017

Month Ending	Target Debt	Actual Debt	Variance from Forecast
	£m	£m	£m
March 2017	85.1	69.7	15.4

For 2014/15 the debt reduction target was changed to focus on the value of 'actionable' debt (ie debt that is not yet in the recovery process) and this has been retained for the 2015/16 and then the 2016/17 year. The target was to limit actionable debt to £85.1 million and this was achieved as at 31 March 2017 when actionable debt had been reduced to £69.7 million. This represented an improvement against the target of £15.4 million and an improvement against the 31 March 2016 position of £11.5 million.

Although total rating debt was no longer a Ministerial Target, LPS continued to monitor total debt as a Key Performance Target. Significant progress was made during 2016/17 and by the end of the year the total rating debt had been reduced to £131.7 million.

Figure1: Trends in Ratepayer Debt

	March 2017	March 2016	March 2015	March 2014	March 2013
	£ million	£ million	£ million	£ million	£ million
Gross Assessments	1,418.1	1,392.0	1,366.4	1,331.1	1,297.9
Net Revenue Collectable	1,232.1	1,196.3	1,172.5	1,130.6	1,110.7
Cash Receipts	1,267.9	1,231.2	1,197.9	1,158.9	1,125.9
Ratepayer Debt	131.7	142.7	156.4	162.1	168.3
Debt written off	(20.7)	(28.6)	(25.3)	(31.6)	(29.1)
Impaired amount	(36.6)	(35.2)	(36.6)	(40.0)	(44.4)
Write off as a % of Gross Assessments	1.45%	2.1%	1.9%	2.4%	2.2%
Year End Debt as a % of Gross Assessments	9.3%	10.3%	11.5%	12.2%	13.0%

*Note that the figures included in the table above are those from the Revenue & Benefit's system without the Year End accounting adjustments (eg accrued income & losses) and as such differ slightly from the figures in the Financial Statements.

It is important that the year-end debt and write off position is considered in light of the overall collection challenge. The year-end debt which was the lowest position it had been since March 2008 amounted to 9.3% of the Gross Assessments and the debt written off amounted to 1.45% of Gross Assessments.

This level of performance must also be considered against the current economic climate within Northern Ireland which has shown signs of improvement in the last year. During the reporting period, LPS implemented phase 2 of a new debt strategy that focused on collection rather than moving debt through the recovery process. Despite this, as at 31 March 2017 the debt in the recovery process has increased to 47% (43% as at 31 March 2016), however the amount of debt secured through the Enforcement of Judgment's Office (EJO) reduced to £9.9 million (from £13.4 million at 31 March 2016).

In addition to the new debt strategy mentioned above, LPS implemented several measures during 2016/17 to improve collection including:

- Improvement of customer segmentation.
- A pilot with external collection agencies such as Stubbs Gazette to target uncollectable debt.
- Continued data cleansing.
- Implementation of a new EJO interface which created efficiencies in the recovery process.

- Automatic Billing for new domestic and partially domestic properties.
- An interactive Direct Debit mandate for customers.
- We introduced a new SMS and e-mail reminder for turn of year discount to improve levels of customer compliance and expanded the Landlord SMS reminder.

Non-Domestic Vacancy Exemptions

There were approximately 14,531 non-domestic properties listed as vacant at April 2017 compared to 15,100 at April 2016. These properties receive either 100% relief, 50% relief or are exempt from rates whilst vacant. In order to maximise the rate revenue and ensure the accuracy of discharge awarded, LPS established a programme of inspections of vacant non-domestic properties in partnership with local councils and had a target to inspect 15% of the total number of vacant non-domestic properties. In 2016/17, the new district councils continued to work in conjunction with LPS to establish whether or not properties are actually vacant and entitled to the vacancy discharge. A total of 3,036 inspections took place and 651 which equated to 21.5% (19.5% during 2015/16) of the properties inspected were found to be occupied. As a result of this, a total of £3.1 million rates demands were raised.

Going forward, LPS has a target to inspect 15% of the total number of non-domestic properties that are listed as vacant during 2017/18.

There is natural buoyancy in the non-domestic property market with properties becoming vacant/occupied on a regular basis. Since LPS began a programme of inspections in 2012/13 there has been variance in the level of occupied properties found as part of the vacancy inspections. Levels have varied from a high of 24% in 2012/13 to a low of 18.25% in 2014/15. There are many reasons for the variance including the number of properties inspected, the make-up of properties inspected, local cultures towards paying rates and natural fluctuation in the property market. LPS attributes some of the increase in 2017/16 to the increased volume of inspections carried out and the targeting of properties with an NAV under £2,000. These had not been targeted for inspection in recent years and as a result it was likely a greater percentage of them would now be found occupied. LPS plans to continue its existing programme of inspections and partnership working with councils to visit as many properties as possible. We are also working with councils to trial new methods of data sharing and collection to identify vacant properties that have become occupied at the earliest opportunity.

Outstanding Valuation Caseload

In the normal course of its business, LPS registers cases each day to re-value domestic and non-domestic properties, bring new properties into the Valuation List and to remove properties from the Valuation List. As such, the Valuation List tax base and, therefore the rate revenue figure in the financial statements, can never be absolutely complete. A model has been developed to quantify the estimated impact of this outstanding valuation caseload figure on the rate revenue. It is important to note that this model as developed assumes that all properties would be fully occupied from the beginning of the financial year and would not be entitled to reliefs such as Industrial De-rating or Sport and Recreation Relief. As such it is acknowledged that the model overstates the rate revenue impact of in hand casework.

As at 31 March 2017 the number of valuation cases in hand is at the lowest level for well over a decade. In 2016/17 the level of domestic cases had fallen to 10,679 from 50,332 in 2007/08 and non-domestic had fallen to 4,750 from 4,869 in the same timeframe. LPS continues to prioritise work across both domestic and non-domestic case types focusing on reducing the number and age profile of work in hand at year end. It must be noted also that the date of the valuation adjustment is reflected in

the rate revenue when it is processed and as such no amount of revenue is lost.

Housing Benefit Fraud and Error

The NI Comptroller and Auditor General qualified his opinion on the 2015/16 LPS Trust Statement due to a limitation in audit scope over the regularity of Housing Benefit expenditure administered on behalf of the Department for Communities due to the material levels of fraud and error, and this qualification has been retained for the 2016/17 Trust Statement. LPS monitors Housing Benefit financial accuracy as a key target. Throughout 2016/17, 8,452 quality assurance checks were completed and an average payment accuracy level of 98.4% was reported.

Standard Assurance Unit (SAU) report on Housing Benefit Fraud and Error and during the 2016 calendar year reported a total payment accuracy of 94.7% against the LPS target of 91%.

LPS Housing Benefit Central Unit (HBCU) maintained stable staffing levels during 2016/17 consolidating experience and knowledge within this area. Previous investment in system automation in relation to changes in circumstance notifications as well as an automatic suspension on Housing Benefit awards following receipt of notifications has assisted in reducing case load volumes, improved turnaround times and reduced the risk of overpayments. In the year 38,612 notifications were automated.

HBCU has also continued to engage with the National Fraud Initiative and conduct internal investigations and reviews of Housing Benefit claims. Approximately 3,800 reviews were carried out during 2016/17.

SAU reports indicate that the actions taken by LPS over the last 18 months to 3 years are showing sustained improvement.

Identifying Unknown Ratepayers

LPS participates in the National Fraud Initiative. Under the initiative LPS matches data with the Electoral Register to identify domestic properties where the owner or occupier is unknown to LPS but is recorded on the electoral register. LPS also makes use of tracing services to identify the owner or occupier of properties where this information is unknown to LPS. This enables more effective billing and collection of rates.

Accounts

The Accounts at the end of this report have been prepared in accordance with the Accounts Direction given by the Department of Finance (DoF), in accordance with Section 11(2) of the Government Resource Act (Northern Ireland) 2001.

Events Occurring after Year-End.

The statutory framework for setting the Regional Rate provides for agreement by the NI Assembly of an affirmative resolution Statutory Rule. Due to the absence of an Assembly since January 2017, and the absence of a 2017/18 Budget, the relevant statutory provision could not be agreed by the Assembly in advance of the 2017/18 rating year. That in turn meant that rate demands could not be issued to ratepayers at the beginning of April as normal. A Regional Rate for Northern Ireland was provided for in law by an Act of the Westminster Parliament on 27 April 2017 and the rate assessments were subsequently raised and issued in early May 2017.

Corporate Governance Report.

The Chief Executive of LPS is responsible to the Permanent Secretary for the performance and operations in accordance with its Framework Document and its Operating Plan. The Chief Executive is responsible for the day-to-day management of LPS and makes periodic reports to the Minister on performance and progress.

The Permanent Secretary of DoF provides support and guidance to the Chief Executive and advises the Minister on the strategic directions of LPS, the Corporate and Operating Plan, the organisation's Key Performance Targets and the resources needed to achieve them.

Corporate Governance and Risk

The LPS Audit and Risk Committee (ARC) exists to expose existing arrangements to greater scrutiny by independent and external experts, thereby improving advice to the Accounting Officer and Management Board as well as raising risk management, control and governance standards across the organisation.

Our business planning cycle is a fundamental part of the work carried out by the Business Development Services Directorate, which is responsible for developing and agreeing a timetable of events culminating with the production of the forthcoming year's Operating Plan.

Staff are involved in collating a wide range of information from across the Directorates. This includes drafting the content of the Business Plan and developing the organisation's Corporate and Directorate Operating Plans.

Risk Management

The LPS Management Board is responsible for risk management and ensuring that an effective management process is in place and that it is regularly reviewed. The ARC provides assurance to the Board that risks are being adequately managed, but will advise and inform the Board if it considers action is required. Owners of risks deemed to be serious are asked to attend ARC meetings, to provide detail of action being taken to mitigate them.

The Management Board collectively agrees the risks to be included in the LPS Corporate Risk Register and assigns ownership of each risk to enable the organisation to improve its performance.

Reporting procedures for complaints

LPS has a comprehensive complaints process which follows the principles of effective complaint handling developed by The Northern Ireland Public Services Ombudsman. The process involves 2 stages of complaint.

All complaints received in LPS are registered and an acknowledgement letter is issued informing the customer that they can expect a reply within 10 working days. Then a comprehensive review of each case is carried out before a response is drafted. If LPS is unable to reply within the original timeframe we will write to inform the customer. Where a satisfactory resolution to the complaint has not been achieved in Stage 1, the complaint escalates to the Chief Executive (a "Stage 2" complaint).

In total LPS received 497 complaints in the 2016/17 year compared to 378 complaints in the 2015/16 year. This equates to a 31% increase in complaints compared to the previous year, however it was also the second lowest total for complaints in the past 8 years which had averaged at 586. There have been no business areas in LPS which have experienced a large or unexplained numerical increase in the volume of complaints received. There have been small incremental rises across several business areas compared to the volumes received in 2015/16.

Employee Policies and Involvement

We recognise that our staff continue to be our most valuable asset. We are committed to DoF's policies on equal opportunity and responsibility for the employment and career development of all staff, regardless of gender, ethnic background or disability.

We seek to increase the potential of all our staff and operational managers through the implementation of our Human Resources and Training Strategy.

We continue to engage with our staff on a regular basis through team briefs, Intranet, and management meetings. In addition, there were regular meetings between management and local employee representatives in line with our Whitley Constitution.

Equality of Opportunity

We follow the Northern Ireland Civil Service policy that all eligible persons should have equal opportunity for employment and advancement on the basis of ability, qualifications and aptitude for work.

Employees with Disabilities

We follow the Northern Ireland Civil Service Code of Practice for the employment of people with disabilities. We aim to make sure that disability is not a bar to recruitment or advancement.

Health and Safety

LPS continues to pay special attention to the welfare of staff and clients, including matters relating to their health and safety.

LPS recognises the importance of a healthy and safe working environment and is committed to adhering to all existing legislation on health and safety. We continue to monitor and review existing policies to improve the health, safety and welfare of staff.

The LPS Health and Safety Committee is comprised of representatives from Trade Union and Management and meets four times a year. The Committee advises the Management Board and as such, it is the responsibility of Management Board to consider the advice provided and to action as appropriate.

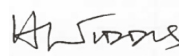
LPS follows the DoF 'Health & Safety at Work Policy Statement' which was made available to staff on 1 January 2016. The 'Lone Working Policy' was updated during 2016 and the revised version was agreed with TUS and made available to all staff. This document covers information and advice for those LPS staff working in the field. Both of these documents can be viewed through the Intranet site.

Political and Charitable Donations

LPS made no political or charitable donations during the year.

Auditors

The financial statements are audited by the Comptroller and Auditor General (C&AG) in accordance with the Government and Resources and Accounts Act (Northern Ireland) 2001. All relevant information was made available to the Auditors. The Audit Certificate is reproduced on pages 18-19 and the C&AG's Report is reproduced at the end of these accounts.



Hugh Widdis
Accounting Officer

24 October 2017

STATEMENT OF ACCOUNTING OFFICER'S RESPONSIBILITIES

Under Section 11(2) of the Government Resources and Accounts Act (Northern Ireland) 2001, DoF requires LPS to prepare for each financial year a Trust Statement ("the Statement") for the revenue and other income collected by the organisation. The Statement is required to be prepared on an accruals basis and to give a true and fair view of the Trust's state of affairs, revenues, expenditure and cashflows for the financial year.

In preparing the Accounts, the Accounting Officer is required to comply with the requirements of the Government Financial Reporting Manual and in particular to:

- Observe the Accounts Direction issued by the DoF, including the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgements and estimates on a reasonable basis;
- State whether applicable accounting standards as set out in the Government Financial Reporting Manual have been followed, and disclose and explain any material departures in the financial statements; and
- Prepare the financial statements on the going concern basis.

DoF has designated the Permanent Head of the Department as the Accounting Officer for LPS. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for the keeping of proper records and for safeguarding LPS's assets, are set out in the Accounting Officers' Memorandum issued by DoF and published in Managing Public Money in Northern Ireland (MPMNI).

GOVERNANCE STATEMENT

LPS was formed as an Executive Agency in April 2007, initially from the merger of the former Rate Collection Agency and the Valuation and Lands Agency. This was followed in April 2008 by the addition of the Land Registers of Northern Ireland and Ordnance Survey of Northern Ireland. In February 2013 the Minister for Finance and Personnel (now DoF) announced that LPS would cease to be an Executive Agency of the Department from 1 April 2013. From this date, LPS has continued its branding and delivered the same services, but as a business group within the Department. The Permanent Secretary of DoF is the Accounting Officer. He is responsible to the Minister of DoF for the organisation's performance and operates in accordance with the LPS Framework document and its Business Plan.

The Chief Executive of LPS has, however, responsibility for the overall day-to-day leadership and management of LPS, making regular reports to the Minister on performance and progress.

LPS Management Board is responsible for the strategic direction of the organisation by reviewing its strategic direction, monitoring performance at corporate level and ensuring that adequate governance controls are in place.

The Governance Statement sets out how LPS has monitored and evaluated the effectiveness of its governance arrangements.

Context

LPS is part of DoF. The overall aim of DoF is “to help the Executive secure the most appropriate and effective use of resources and services for the benefit of the community”.

The work we do makes a significant and positive difference to the everyday lives of all the citizens in Northern Ireland. We provide and support important public services by:

- Collecting over £1 billion in rates for the NI Executive and district councils to fund important public services provided by central and local government;
- Providing mapping services which are used widely across the public and private sectors informing policy development and enhancing service delivery;
- Administering various rate related reliefs including Housing Benefit, Rate Relief, Lone Pensioners Allowance, Disabled Pensioners Allowance and a number of business related reliefs to help those in need pay their rates and provide assistance to business;
- Monitoring domestic and non-domestic Valuation Lists;
- Providing a registration service for recording legal interests in land and providing land information for conveyancing purposes; and
- Delivering property valuations, estate management and property data services to the public sector.

Financial Management

Financial Management requires the LPS Board to play a significant part in the effective monitoring and management of the organisation’s financial performance. LPS regularly reviews actual income and expenditure against budget to form the basis of collective Board decisions about the allocation and use of resource to ensure that the LPS financial management target of avoiding overspend and managing under spend within a tolerance of 1.5% is met.

The LPS Finance Business Partnering Team of the Departmental Finance Division provides a monthly support function to the LPS Management Board by issuing monthly financial management reports to the Board, and providing advice and recommendations in the allocation of resources. LPS Directorates are responsible for managing their budgets and reviewing actual and forecast information and analysis of variance against budgets. This enables the LPS Board to assess the extent to which corrective action is needed to address the organisation’s financial position.

The information provided by the LPS Finance Business Partnering Team is in the form of monthly LPS Management Accounts to each Directorate and LPS management members to show the spend against budget for the period and year, variances to date, and total budget for the year. The LPS Management Board is also supplied with a monthly finance report which provides high level finance information on spend against budget, and highlights areas of concern. LPS Management Board is satisfied with the quarterly financial report which is used to note strategic decisions on priority spend.

Risk and Control Framework

Risk management within LPS continues to be an integral part of our business planning process. This includes identification of risk, assignment of ownership, presentation of the risk, mitigation, management, evaluation and review.

The Corporate Risk Register is an integral part of LPS Risk Management policy and approach. The Risk Register records the status of each high level risk and the actions being taken to address the risk.

The Corporate Risk Register is regularly reported to and monitored by the Board and LPS ARC. The ARC is chaired by one of its three independent members and functions in accordance with best practice contained in the Audit and Risk Assurance Committee Handbook (NI) issued March 2014.

The Management Board ensures the risk management and internal control are regularly reviewed and reported on in the following manner:

- All business areas use predetermined weightings and a standardised approach to risk assessment;
- Key risks identified at organisational level are documented on Risk Registers and are reviewed on a formal basis by the Management Board at least four times during the course of a year;
- LPS ARC formally reviews risks and controls on a regular basis;

- ARC assesses the continued appropriateness of the respective risks and the means through which they are managed. The need to add, delete, delegate or promote risks is also determined in order to reflect the current business environment;
- Directors complete Stewardship Statements at the end of each financial year. Mid-year reports are the vehicle for ensuring the continued maintenance of registers during the year;
- Adherence to the Department's 'Whistle Blowing' policy;
- The Management Board receives periodic reports concerning internal control. The appropriate steps have been taken to manage risks in significant areas of responsibility and to monitor progress reports on key projects; and
- Key projects are managed within a programme environment. Each project is owned by the appropriate member of the Management Board and managed within the Prince2 project structure by a project manager who has been trained in this and risk analysis. The Gateway Review process has been implemented for priority projects.

The main risks associated with LPS are around not achieving the two key targets referred to in the Director's Report.

Organisation Performance

The LPS Business Plan 2016/17 sets out the targets and objectives for the year against which performance is reported and monitored. Progress has been reported monthly to the Board, as part of the Corporate Performance using a Red/Amber/Green status assessment of each target and narrative on the actions taken to deliver the expected outcomes.

As part of the Corporate Performance Reports, the Board also receives, thoroughly reviews and seeks improvement to information on key organisational statistics. This relates to LPS performance in responding to Assembly Questions, Freedom of Information and Data Protection requests, prompt payment to suppliers, workforce planning, resourcing, absence management, procurement, contract activity and expenditure on areas of interest such as external consultancy and hospitality.

Progress against Key Departmental targets is also reported on a quarterly basis to DoF.

Level of Assurance

The Accounting Officer has responsibility for ensuring that a robust risk management system is in place, so that risks faced by LPS are identified and managed accordingly. The Accounting Officer is also responsible for reviewing the effectiveness of the system of internal control. The review is informed by the work of DoF's Internal Audit and Board members who have responsibility for ensuring that the controls and actions recommended are implemented.

The Department's Internal Audit has carried out an extensive programme of work during 2016/17 working collaboratively with LPS ARC, LPS Senior Management, external stakeholders and with the Northern Ireland Audit Office. These reports provide an objective and widespread assessment of the systems of internal control in operation across LPS, together with prioritised recommendations to strengthen controls and implement further improvements.

In his Annual Assurance Report, the Head of Internal Audit provides LPS with a satisfactory level of assurance. This is the eighth successive year that LPS has received this level of assurance from Internal Audit on its systems of control and governance. Five risk based audits have been completed and in four areas a satisfactory audit opinion was provided. The audit of Mapping E Commerce provided a 'limited' report with two priority 1 findings, but these have no direct impact on the LPS Trust Statement. Appropriate action is being taken to address the issues raised. Two advisory and one compliance audit were also completed.

A synopsis of the main findings from each audit was provided to ARC.

Fraud Prevention and Assurance

LPS takes a zero tolerance approach to fraud and will report instances of fraud to the PSNI, if necessary. LPS also participates fully in the National Fraud Initiative by investigating matches in relation to payroll, pensions, trade creditors, rates and Housing Benefit data.

As an NIAO recommendation, a quarterly standard assurance report on Housing Benefit Fraud and Error is now a standing item at LPS ARC.

This focuses on quality checks, assessor support, remedial training, improved caseload and management through risk based reviews and interventions, benefit uprating and cleansing, training in decision making appeals and fraud awareness.

Whistle blowing arrangements are in place and can be used to raise concerns about alleged impropriety, wrongdoing, corruption, fraud or malpractice.

Significant Internal Control Problems

Housing Benefit Fraud and Error

The NI Comptroller and Auditor General qualified his opinion on the 2015/16 LPS Trust Statement due to a limitation in audit scope over the regularity of Housing Benefit expenditure administered on behalf of the Department for Communities due to the material levels of fraud and error, and this qualification was been retained for the 2016/17 Trust Statement. LPS monitors Housing Benefit financial accuracy as a key target and several actions have been instigated in order to reduce the level of fraud and error which include:

- Stabilising staff numbers and consolidating staff experience.
- Improvements to the IT system which helped relieve pressure (36,500 cases actioned automatically).
- Introduction of system suspensions to further reduce turnaround times and resulting overpayments.

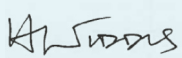
Fifteen recommendations were made following this audit, two were Priority 1 in relation to credit and payments and the mapping archive. Five for Priority 2 and eight were Priority 3.

Fraud

During December 2015 LPS discovered and reported to DoF Internal Audit and NIAO an incidence of suspected fraud carried out by one member of staff. The case was referred to General Fund Investigation Service (GFIS), who subsequently passed the details to the PSNI for investigation. The total amount under investigation was £129,772 misappropriated between May 2013 and September 2015. A full PSNI investigation was conducted and the staff member pleaded guilty to two charges of fraud by abuse of position and converting criminal property (money laundering). The staff member was sentenced to a two and a half year prison sentence, suspended for two years. An internal investigation and control review has also been ongoing and the resultant paper has been presented to the ARC and Management Board. A number of recommendations for control improvements have been noted and some have already been implemented with the remainder being consulted on at present with Senior Management. In August 2017 LPS recouped £97,500 of the misappropriated funds through the PSNI's Confiscation Order, the outstanding balance will be subject to an annual interest charge until it is repaid.

Conclusion

Taking into account all of the arrangements set out in this Governance Statement, LPS has an effective governance structure in place and has satisfactory systems of internal control which have operated effectively throughout 2016/17.



Hugh Widdis
Accounting Officer

24 October 2017

LAND & PROPERTY SERVICES' TRUST STATEMENT – RATE LEVY ACCRUALS ACCOUNT

THE CERTIFICATE OF THE COMPTROLLER AND AUDITOR GENERAL TO THE NORTHERN IRELAND ASSEMBLY

I certify that I have audited the financial statements of the Land & Property Services' Trust Statement – Rate Levy Accruals Account for the year ended 31 March 2017 under the Government Resources and Accounts Act (Northern Ireland) 2001. The financial statements comprise: the Statement of Revenue and Expenditure, the Statement of Financial Position, the Statement of Cash Flows, and the related notes. These financial statements have been prepared under the accounting policies set out within them.

Respective responsibilities of the Accounting Officer and auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit, certify and report on the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001. I conducted my audit in accordance with International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the circumstances of the Land & Property Services' Trust Statement – Rate Levy Accruals Account and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by Land & Property Services; and the overall presentation of the financial statements. In addition I read all the financial and non-financial information in the Annual Report to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by me in the course of performing the audit. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my certificate.

I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Basis for Qualified Opinion on regularity arising from erroneous Housing Benefit awards and payment of fraudulent claims

The total amount paid in Housing Benefit is £39.2 million. As reported in Note 11 to the financial statements, the level of error is estimated to be £3.3 million and the level of fraud is estimated to be £2.5 million. The Housing Benefit overpayments are irregular as the expenditure has not been applied in accordance with the purposes intended by the Assembly and also because fraudulent transactions are by definition irregular since they are without proper authority. In addition, both over and under payments arising from official error are irregular because they have not been calculated in accordance with the primary legislation which specifies the entitlement criteria for this benefit and the method used to calculate the amount to be paid.

I have therefore qualified my opinion on the regularity of Housing Benefit expenditure because of the estimated levels of overpayments attributable to fraud and error which have not been applied to the purposes intended by the Assembly and because of the level of overpayments and underpayments due to official error in such benefit expenditure which are not in conformity with the authorities which govern them.

Opinion on regularity

In my opinion, except for the £5.8 million of estimated fraud and error in housing benefit expenditure, in all material respects the expenditure and revenue recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on financial statements

In my opinion:

- The financial statements give a true and fair view of the state of affairs of Land & Property Services' Trust Statement – Rate Levy Accruals Account as at 31 March 2017 and of the net revenue for the Consolidated Fund for the year then ended; and
- The financial statements have been properly prepared in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance directions issued thereunder.

Opinion on other matters

In my opinion:

- The information given in the Performance and Accountability Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- Adequate accounting records have not been kept; or
- The financial statements are not in agreement with the accounting records; or
- I have not received all of the information and explanations I require for my audit; or
- The Governance Statement does not reflect compliance with Department of Finance's guidance.

My detailed observations are included in my report attached to the financial statements.



KJ Donnelly

Comptroller and Auditor General

Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU

25 October 2017

STATEMENT OF REVENUE AND EXPENDITURE FOR THE YEAR ENDED 31 MARCH 2017

		2016-17	2015-16
	Note	£'000	£'000
REVENUE:			
Rate Revenue	1.3	1,418,157	1,392,001
Other Revenue		3	3
Total Revenue		1,418,160	1,392,004
EXPENDITURE:			
Reliefs and Discharges			
Vacancies	1.4, 2	45,493	44,994
Housing Benefit	1.4, 11	39,157	40,669
Rate Reliefs and Discharges	1.4, 2	44,615	43,250
Transitional Relief	1.4	(2)	(6)
Maximum Capital Value	1.4	8,005	7,777
Allowances	1.4	11,085	10,573
Discounts	1.4	5,550	5,258
District Rate Convergence	1.4	7,871	10,471
Credit Losses – debts written off or otherwise impaired	3	23,034	27,824
Rating of Empty Homes Discharge	1.4, 1.10	3,441	2,380
Total Reliefs and Discharges		188,249	193,190
Net Revenue for Consolidated Fund		1,229,911	1,198,814

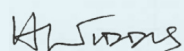
There were no recognised gains or losses accounted for outside the above Statement of Revenue, Other Income and Expenditure.

The notes on pages 23 to 29 form part of these financial statements.

STATEMENT OF FINANCIAL POSITION AS AT 31 MARCH 2017

	Note	31 March 2017	31 March 2016
		£'000	£'000
Non-Current Assets:			
Receivables falling due after more than one year	4	330	294
Current Assets:			
Receivables	5	97,453	109,910
Cash and Cash Equivalents	6	<u>1,275</u>	<u>2,166</u>
Total Current Assets		98,728	112,076
Total Assets		99,058	112,370
Current Liabilities			
	7	<u>(17,499)</u>	<u>(16,183)</u>
Net Asset		81,559	96,187
Total Assets less Current Liabilities		81,559	96,187
Represented by:			
Balance on Consolidated Fund Account	8	81,559	96,187

The notes on pages 23 to 29 form part of these financial statements.



Hugh Widdis
Accounting Officer
24 October 2017

STATEMENT OF CASH FLOWS FOR THE YEAR ENDED 31 MARCH 2017

		2016-17	2015-16
	Note	£'000	£'000
Net Cash flow from operating activities	A below	1,243,648	1,211,539
Cash paid to Consolidated Fund	8	(1,244,539)	(1,215,928)
(Decrease)/Increase in cash in this period		(891)	(4,389)
Notes to the Cash Flow Statement			
A: Reconciliation of Net Cash Flow Movement in Net Funds			
Net Revenue for the Consolidated Fund	8	1,229,911	1,198,814
Decrease/(Increase) in Non-Cash Assets		12,421	11,874
Increase/(Decrease) in Liabilities		1,316	851
Net Cash Outflow from Operating Activities		1,243,648	1,211,539
B: Analysis of Changes in Net Funds			
(Decrease)/Increase in cash in this period	6	(891)	(4,389)
Net Funds at 1st April (Net Cash at Bank)	6	2,166	6,555
Net Funds at 31st March (Closing Balance)		1,275	2,166

The notes on pages 23 to 29 form an integral part of these financial statements.

NOTES TO THE TRUST STATEMENT ACCOUNTS

1.0 STATEMENT OF ACCOUNTING POLICIES

1.1 Basis of Accounting

The Trust statement is prepared in accordance with the accounts direction issued by the Department of Finance (DoF) under Section 11(2) of the Government Resources and Accounts Act (Northern Ireland) 2001. The Trust Statement is prepared in accordance with the accounting policies detailed below. These have been developed with reference to the Government Financial Reporting Manual (FReM) issued by DoF. The accounting policies contained in FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the one judged to be the most appropriate to the particular circumstances of LPS for the purpose of giving a true and fair view has been selected. The particular policies adopted by LPS have been applied consistently in dealing with items that are considered material to the accounts.

Management has reviewed new accounting standards that have been issued but are not yet effective, nor adopted early, for these Accounts. Management consider that these are unlikely to have any significant impact on the Accounts in the period of initial application.

1.2 Accounting Convention

The Trust Statement has been prepared under the historical cost convention, modified by the revaluation of certain assets and liabilities to fair value as determined by the relevant accounting standards, and subject to the interpretations and adaptations of those standards in FReM.

1.3 Revenue Recognition

Revenue is measured at the fair value of the amounts received and receivable. Revenue is recognised in the year in which it is assessed on ratepayer properties when revenue can be measured reliably and it is probable that the economic benefits from the Rates Revenue will flow to the Consolidated Fund. The revenue figure is also adjusted for Certificates of Revision which are received from Valuations with an effective date of revision.

1.4 Reliefs and Discharges

Reliefs and Discharges are recorded in the year based on the information received from ratepayers. Accrued estimates of Reliefs and Discharges are calculated at the year end based on the amount of Reliefs outstanding at the year end.

The types of Reliefs and Discharges included in the Statement of Revenue and Expenditure are: Exemptions from Vacancies; Housing Benefits; Transitional Reliefs; Maximum Capital Value; Discounts; Article 20 and 21 Landlord Allowances; Rate Reliefs and Discharges; and Rating of Empty Homes Discharge.

Rate Reliefs and Discharges include:

- Disabled Persons Allowances (DPA);
- Owner Occupier Lone Pensioner Allowance (LPA), Private Rented LPA, Northern Ireland Housing Executive (NIHE) LPA and NIHE Housing Association LPA;
- Owner Occupier Rate Relief, Private Rented Rate Relief, NIHE Rate Relief and NIHE Housing Association Rate Relief;
- Residential Home Relief;
- Small Business Rate Relief;
- District Rate Convergence;
- Full Time Education Relief; and
- Farm Diversification.

1.5 Receivables

Receivables are shown net of impairment in accordance with the requirements of IAS 39. With the exception of Cash Receivables as a result of the Rates Deferment Scheme, all Cash Receivables have been disclosed as collectable within 12 months after the reporting period. This disclosure does not currently meet the requirements of IAS 1 which requires disclosure of amounts expected to be recovered:

- No more than 12 months after the reporting period; and
- More than 12 months after the reporting period.

as the IT system used for Rate Levy and Collection by LPS does not currently have the capability to provide this information. This reporting requirement will be addressed in any future rating IT replacement system.

1.6 DoF Resource Accounts

Administration costs and transactions (Non-Current Assets, Payment of Interest to Ratepayers; Legal Costs and Fees, and Cost of Collection) are accounted for in the DoF Resource Accounts and are covered by its related accounting policies. These transactions do not form a part of the Trust Statement.

1.7 Financial Instruments

Financial assets and liabilities are recognised in LPS Statement of Financial Position when the organisation becomes party to the contractual provisions of the instrument.

Financial Assets

Financial assets are classified into the following specified categories: 'fair value through profit or loss' ('FVTPL'); 'available-for-sale' ('AFS') financial assets and 'loans and receivables'. The classification depends on the nature and purpose of the financial assets at the time of initial recognition. LPS' financial assets are classified as Loans and Receivables and are initially measured at fair value and are subsequently measured at the undiscounted amount of the cash consideration expected to be received.

LPS assesses at each Statement of Financial Position date whether there is any objective evidence that a financial asset or group of financial assets classified as loans and receivables is impaired. Based on historic experience, receivables that are past due beyond 365 days are generally recoverable.

Impairment losses are assessed individually for financial assets that are individually significant and collectively for assets that are not individually significant. In making collective assessment of impairment, financial assets are grouped into portfolios on the basis of similar risk characteristics. Future cash flows from these portfolios are estimated on the basis of the contractual cash flows and historical loss experience for assets with similar risk characteristics.

Impairment losses are recognised in the Statement of Revenue and Expenditure and the carrying amount of the financial asset or group of financial assets reduced by establishing an allowance for impairment losses. If, in a subsequent period, the amount of the impairment loss reduces and the reduction can be ascribed to an event after the impairment was recognised, the previously recognised loss is reversed by adjusting the allowance. When a financial asset is deemed irrecoverable, the amount of the asset is reduced directly and the impairment loss is recognised in the Statement of Revenue and Expenditure to the extent that a provision was previously recognised.

Financial Liabilities

Financial Liabilities are initially measured at fair value net of transaction costs and are subsequently measured at amortised cost using the effective interest method.

1.8 NIHE Administration Expenses

A new rate relief scheme was introduced in Northern Ireland on 1 April 2007. Legislation provided that the relief would be administered by the Northern Ireland Housing Executive (NIHE) on the LPS' behalf for its own tenants, private tenants or tenants of registered housing associations. LPS meets the administration costs of the scheme which are included in the DoF resource account.

1.9 Accounting Estimates

As a result of the uncertainties inherent in all business activities, many items in financial statements cannot be measured with precision but can only be estimated. Where estimates have been required in order to prepare these financial statements in conformity with FReM, management has used judgements based on the latest available, reliable information. Management continually reviews estimates to take account of any changes in the circumstances on which the estimate is based or as a result of new information or more experience.

1.10 Rating of Empty Homes

On 1 October 2011, Rating of Empty Homes went live. Before this date, vacant domestic properties were assessed and fully discharged so no liability arose on the owner. However, since the new policy went live all vacant domestic properties are assessed in the usual way and assessments are issued to property owners.

There are several application based and automatic exclusions attached to the scheme and the discharge is shown in the Statement of Revenues, Reliefs and Discharges.

1.11 Comparatives

The 2015/16 comparatives are shown within these Accounts.

2. VACANCY DISCHARGE AND RATE RELIEF

Below is a detailed analysis of the vacancy discharge and Rate Relief and Other Discharge figures in the statement of Income and Expenditure:

	2016-17	2015-16
	£'000	£'000
Vacancies		
Non Domestic Vacant Rating	44,761	44,301
Domestic Vacant Rating	(3)	(12)
Empty Property Relief	729	705
	45,493	44,994
Rate Reliefs and Other Discharges		
Disabled Persons Allowance	3,273	3,136
Residential Home Relief	8,603	8,469
Domestic Rate Relief	8,198	7,992
Low Carbon Homes Scheme	22	23
Full Time Education Relief	-	-
Non Domestic Hardship Relief	-	3
Small Business Rate Relief	18,530	17,998
Lone Pensioners Allowance	5,989	5,629
	44,615	43,250

3. CREDIT LOSSES

	2016-17	2015-16
	£'000	£'000
Bankruptcies*	6,477	8,272
Liquidations	2,117	3,350
Other Irrecoverables	12,783	17,500
Change in the value of impairments	1,657	(1,298)
	23,034	27,824

*Includes Individual Voluntary Arrangements of £881,223 in 2016/17 (£1,185,825 in 2015/16).

During 2016/17 there was one loss identified that was in excess of £250,000. This related to a limited company which was formally dissolved. The total loss amounted to £254,635.49.

Credit Losses are the amounts reportable to the NI Assembly under rules on disclosure of Losses and Write-Offs in Managing Public Money Northern Ireland (MPMNI) Annex A.4.10.24 under the 'Claims waived or abandoned'.

4. NON CURRENT ASSETS

	2016-17	2015-16
	£'000	£'000
Rate assessments receivable >1 year	320	287
Interest accrued on rate assessment debt	10	7
	330	294

During the year ended 31 March 2011, LPS implemented a new 'rate deferral' scheme which allowed ratepayers to enter into a legal agreement with LPS to defer payment of rate assessments until a later date. Rate assessments receivable > 1 year represent assessments raised against ratepayers who have legally entered into this scheme.

LPS holds security by way of a statutory charge over the property for which the rate assessments are deferred. Therefore, there has been no provision for bad debt against these rate assessments.

All debt is due to the Consolidated Fund when realised.

5. RECEIVABLES AND OTHER CURRENT ASSETS

5.1 Amounts Due

	2016-17	2015-16
	£'000	£'000
Rate Debtors before estimated impairments	131,139	142,320
Less: estimated impairments (see note 5.2)	(36,926)	(35,269)
	94,213	107,051
Other Debtors	2	2
Accrued Income	3,230	2,847
Due from LPS business account	8	10
	97,453	109,910

Rate debtors represent the amount due from ratepayers where assessments have been raised but not paid for as at 31 March 2017.

All debt will be due to the Consolidated Fund when realised.

5.2 Impairment of Trade Receivables

The following table shows the impairment of trade receivables at the Statement of Financial Position date:

	2016-17	2015-16
	£'000	£'000
Balance as at 1 April	35,269	36,567
(Decrease)/Increase in estimated value of impairments	1,657	(1,298)
Balance as at 31 March	36,926	35,269

Debtors in the Statement of Financial Position are reported after the deduction of the estimated value of Impairments. This provision has been set using analysis of the quality, type of debt and its likelihood of collectability. The assessment of collectability is supported by management judgement

6. CASH AND CASH EQUIVALENTS

	2016-17	2015-16
	£'000	£'000
Balance as at 1 April	2,166	6,555
Net change in cash and cash equivalent balances	(891)	(4,389)
Balance as at 31 March	1,275	2,166
The following balances at 31 March were held at Commercial banks and cash in hand		
Balance as at 31 March	1,275	2,166

7. TRADE PAYABLES AND OTHER CURRENT LIABILITIES

	2016-17	2015-16
	£'000	£'000
Rating Creditors	5,479	8,053
Bank Overdraft	1,877	-
Other Creditors	4,635	3,194
Accruals	731	634
Due to LPS business account	302	302
Deferred Income*	4,475	4,000
Total	17,499	16,183

*The deferred income relates to a payment that was made by a ratepayer against their 2017/18 rate liability

8. BALANCE ON CONSOLIDATED FUND ACCOUNT

	2016-17	2015-16
	£'000	£'000
Balance on Consolidated Fund Account as at 1 April	96,187	113,301
Net Revenue for the Consolidated Fund	1,229,911	1,198,814
Less: Amount paid to Consolidated Fund	(1,244,539)	(1,215,928)
Balance on Consolidated Fund Account as at 31 March	81,559	96,187

9. RELATED PARTY TRANSACTIONS

LPS is a business group within DoF, DoF is regarded as a related party. During the year, LPS paid £1.244 billion to the Consolidated Fund Account.

During the year, LPS issued material rating invoices to various other government departments and central government bodies in the normal course of its business. These invoices totalled £189.7m for 113 Public Bodies and the largest four assessments issued were:

Government Department/Central Government Bodies	2016-17 Assessmnt £m
NI Water Service	£25.8
Education Authority	£18.3
Properties Division - DoF	£17.3
Police Service of Northern Ireland	£12.7

In addition, LPS paid £4,106,548 to the Northern Ireland Housing Executive (NIHE) acting as a landlord under Article 21 in respect of payment of rates on properties owned by the NIHE.

During the period, none of the board members, members of the key management staff or other related parties have undertaken any material transactions with the organisation.

10. EVENTS AFTER THE REPORTING PERIOD

There were no events after the reporting date and the date when the Accounts were signed which require adjustment to the financial statements or disclosure within them.

The Accounts were authorised for issue on 24 October 2017.

11. FRAUD AND ERROR

LPS administers Housing Benefit on behalf of the Department for Communities (DfC). Levels of fraud and error in Housing Benefit for owner occupiers are reported by the Disability, Incapacity & Benefit Security Directorate Standards Assurance Unit of the DfC through Benefit Reviews, which measure Official Error, Customer Fraud and Customer Error.

DfC issued two reports 'Housing Benefit Review (Customer Error and Customer Fraud)' and 'Housing Benefit Review Financial Accuracy Official Error' for the calendar year 1 January 2016 to 31 December 2016 in March 2017. These reports highlighted errors amounting to £3.3 million (£1.3 million customer error overpayment, £0.3 million official error underpayment and £1.7 million official error overpayment) and £2.5 million customer fraud in Housing Benefit for owner occupiers. This represents approximately 15.8% of the related expenditure for the calendar year. Customer Error and Customer Fraud estimates for Housing Benefit for owner occupiers are based on the results of Benefit Reviews in 2016.

ANNEXES

ANNEX 1: Summary statement of rate levy and collection

	2016-17		2015-16	
	£m	£m	£m	£m
Debtors at 1 April				
Prior year adjustment – debits brought forward				
Amended Debits brought forward		142.3		156.8
Assessments during year		1,417.0		1,390.6
Credit carried forward to next period		5.7		8.2
		1,565.0		1,555.6
Less: Discharged during the year				
Credits brought forward from last year				
Prior year adjustment – credit brought forward				
Amended credit brought forward	8.2		9.1	
Net receipts (ie receipts less refunds)	1,240.6		1,209.8	
Vacancies	0.2		0.2	
Rebates/Rate Relief/DPA/LPA/EEHS	86.6		89.9	
Residential Home Relief	8.6		8.5	
Non-Domestic Vacant Rating Relief	40.9		41.1	
Allowances	11.1		10.5	
Discounts	5.5		5.3	
Written-off as Irrecoverable	20.7		28.7	
Transitional Relief/Capping	8.0		7.8	
Rating of Empty Homes	3.4		2.4	
		1,433.8		1,413.3
Debtors at 31 March		131.2		142.3

Note 1: The Statement of Rate Levy and Collection (SRLC) forms the basis of the Rate Levy Accruals Account, which has become the official accounting record from 2010/11, and replaces the SLRC. The SLRC 2016/17 has been included in this Annual Report for information purposes only.

ANNEX 2: Summary of 2016-17 rate collection

Target: 96.5% of the net collectable rate collected based on April 2016 assessments (as at 31 March 2017)

Council	April 2016 Assessments	Balance	Collected/ Discharged	% Collected/ Discharged
	£	£	£	
Antrim and Newtownabbey	104,846,870	1,776,263	103,070,607	98.3
Ards and North Down	110,223,981	2,480,009	107,743,972	97.8
Armagh City, Banbridge and Craigavon	128,149,478	4,180,232	123,969,246	96.7
Belfast	358,438,521	10,779,719	347,658,802	97.0
Causeway Coast and Glens	93,189,759	1,962,991	91,226,768	97.9
Derry City and Strabane	102,704,412	2,810,335	99,894,077	97.3
Fermanagh and Omagh	74,726,423	2,016,870	72,709,553	97.3
Lisburn and Castlereagh	105,570,418	1,994,455	103,575,963	98.1
Mid and East Antrim	95,063,336	1,594,128	93,469,208	98.3
Mid Ulster	78,163,318	2,339,166	75,824,152	97.0
Newry, Mourne and Down	113,033,151	4,423,061	108,610,090	96.1
Total	1,364,109,667	36,357,229	1,327,752,438	97.3

April 2016 Assessments represent rating assessments for the 2016/17 year.

Balance represents the balance still outstanding from these assessments as at 31 March 2017.

Collected/Discharged represents the amount of the assessments that have been collected from ratepayers or discharged through one of the reliefs.

Report by the Comptroller and Auditor General
Land & Property Services
Trust Statement – Rate Levy Accruals Account 2016-17

SECTION 1: TRUST STATEMENT – RATE LEVY ACCRUALS ACCOUNT 2016-17

Introduction

1. This report sets out:
 - The background to the levels of fraud and error in housing benefit expenditure administered by Land & Property Services (LPS);
 - The basis of my qualified audit opinion on the 2016/17 Trust Statement prepared by LPS in respect of the Rate Levy Accruals Account;
 - Actions LPS is taking to reduce levels of fraud and error; and
 - Progress on some other matters previously considered by the Public Accounts Committee in 2012.
2. I am required under the Accounts Direction given by the Department of Finance in accordance with Section 11(2) of the Government Resources and Accounts Act (Northern Ireland) 2001 to report my opinion as to whether the financial statements give a true and fair view. I am also required to satisfy myself that, in all material respects, expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and conform to the authorities which govern them; that is, they are 'regular'.
3. LPS administers Housing Benefit for rates of owner occupiers on behalf of the Department for Communities (DfC). Unlike all other Social Security benefits where payments are made, LPS administers £39.2 million of Housing Benefit in Northern Ireland by offsetting housing benefit against the rate accounts of people who own their own house but are entitled to apply for a reduction as they are on low income and suffering financial hardship. There is estimated to be a substantial amount of fraud and error within these transactions amounting to 14.8% of LPS total Housing Benefit expenditure (compared to 19.5% last year).
4. I consider the level of fraud and error in Housing Benefit expenditure continues to be material. Therefore, as in previous years, my opinion on the regularity of this benefit expenditure is qualified.

Arrangements for Monitoring and Reporting Housing Benefit Fraud and Error

5. DfC's Standards Assurance Unit (SAU) regularly monitors and measures the estimated levels of fraud and error within the benefit system, including Housing Benefit. In order to do this, statisticians from its Analytical Services Unit randomly select samples of ongoing benefit claims and SAU subject them to detailed examination for evidence of official error², customer error and customer fraud. The results of this testing are then used to estimate the total level of fraud and error.
6. DfC points out that the estimation of fraud and error is by its nature subject to uncertainty because it is based on sample testing. Estimates do, however, represent the best measure of fraud and error available at present. In order to facilitate the timetable for the production of financial statements, SAU's testing on benefit claim accuracy is reported on a calendar year rather than a financial year basis. I am satisfied this is reasonable.
7. As part of my audit of DfC, I examine the work undertaken by SAU to assess the levels of fraud and error within the benefit system, including Housing Benefit. My staff examine and re-perform a sample of their case work carried out during the year and review the methodologies applied in carrying out these exercises. I am content the results produced by SAU are a reliable estimate of the total fraud and error in the benefit system.

¹ Housing Benefit is a means tested benefit administered by LPS to people who own their homes and are on low incomes with savings and capital below the £16,000 eligibility threshold. This includes but is not limited to those in receipt of means tested benefits such as Job Seeker's Allowance/Income Support/Pension Credit/ Employment and Support Allowance.

² The SAU methodology does not take into account the effect a reduction in entitlement to Housing Benefit has on the ratepayers entitlement to Rate Relief.

Basis of Qualification

8. SAU reported in March 2017 the extrapolated levels of fraud and error for Housing Benefit administered by LPS during the calendar year 1 January 2016 to 31 December 2016. This report highlights estimated levels of customer fraud of £2.5 million, official error amounting to £2.0 million and customer error amounting to £1.3 million.
9. **Figure 1** and **Figure 2** below show that the level of error has decreased from £5.0 million in 2012 to £3.3 million in 2016, a decrease of 34% over the five year period and a reduction of 41% when compared to the previous year 2015.
10. They also show decreases of 39% in overpayments³ and 40% in underpayments attributable to official error over the same five year period. I note the sustained reduction in official error for overpayments with underpayments remaining unchanged from the previous year 2015. Customer error has shown a 37% decrease over the five year period, falling to its lowest level in 2016.
11. Customer fraud has however remained static at £2.5 million which continues to be 257% higher than at the start of the five year review period.⁴
12. Overall I am pleased to note the improvements in the level of fraud and error from £8.6 million in 2014, its highest level over the five year period, to £5.8 million in 2016, although I am disappointed that the efforts of LPS have not yet had the same significant impact on the level of customer fraud.

Figure 1: Estimated fraud and error in Housing Benefit administered by LPS (Note 11⁴) deemed to be irregular

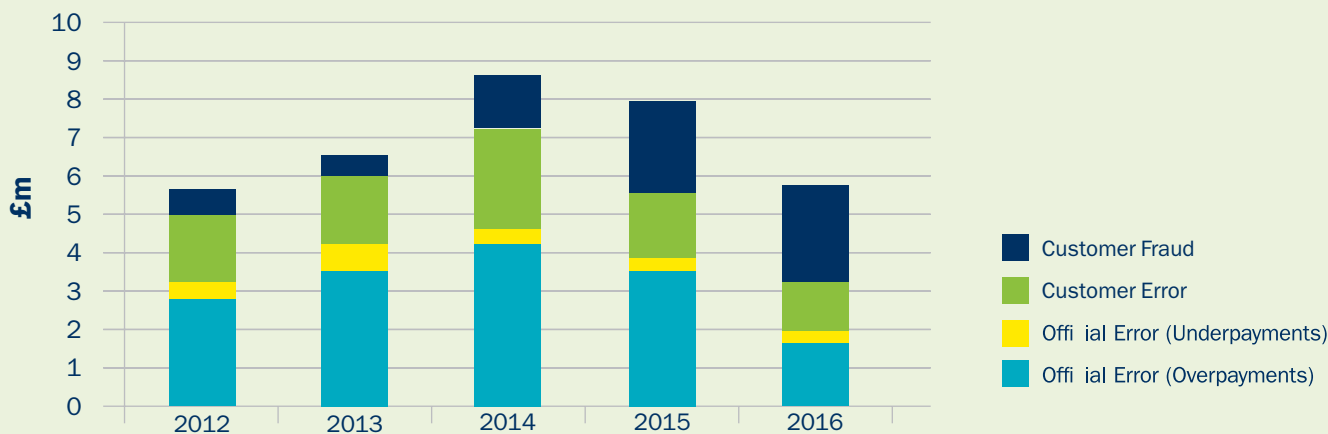
	2012	2013	2014	2015	2016
	£ million	£ million	£ million	£ million	£ million
HB Administered	41.2	40.7	42.2	41.5	39.1
Error					
Official Error (Overpayment)	2.8	3.5	4.2	3.6	1.7
Customer Error (Overpayment)	1.7	1.9	2.7	1.7	1.3
Official Error (Underpayment)	0.5	0.7	0.4	0.3	0.3
Total	5.0	6.1	7.3	5.6	3.3
% of Housing Benefit	12.1%	15.0%	17.3%	13.5%	8.4%
Fraud					
Customer Fraud	0.7	0.5	1.3	2.5	2.5
Total	0.7	0.5	1.3	2.5	2.5
% of Housing Benefit	1.7%	1.2%	3.1%	6.0%	6.4%

Source: Analytical Services Unit, DfC

³ Overpayments are added back onto the rate account and collected as part of the normal rating process.

⁴ Note 11 to the Trust Statement includes customer error underpayments of £0.3million which are not irregular transactions. This is consistent with the approach adopted in the DfC benefit regularity qualification for 2016/17.

Figure 2: Breakdown of over/underpayments 2010 - 2016



Levels of fraud and error

13. LPS advised me that the decrease in the official error rate in 2016 compared to 2015, was a reflection of the following measures:

- LPS Housing Benefit has undergone a period of stabilisation over the last number of years both in workload and in retention of experienced staff;
- The impact of real time Change in Circumstances (CiCs) from ATLAS since 2012 has been diminishing through effective application of resources. LPS Housing Benefit is working towards achievement of normalised resource workloads and a reduction in backlog cases and have plans in place to reduce the 24 day turnaround target to 20 days in September and further decrease to stand at 18 days by January 2018 (a target set by DfC). LPS anticipates continued improvement in financial accuracy and a reduction in the levels of fraud and error as SAU fraud and error measurements penalise LPS Housing Benefit for delayed action on information received;
- Retention of experienced staff is also considered to be a contributory factor to the reduction of fraud and error, since the risk of error reduces as staff knowledge and skills increase;
- Significant quality assurance checks enable the identification of training needs as well as enabling prompt remedial action to be taken where errors have been identified; and
- Automation of ATLAS notifications stands at 49.5% of all notifications received in the current year (47,091 received of which 23,290 were automated). This is an increase of 15.8% when compared to the previous year 2015. This has assisted in reducing the impact of delayed action and has enabled better management of the volume of claims where automation is not possible.

Levels of Customer Fraud

14. I asked LPS if they had identified any specific reasons for the ongoing increase in customer fraud. LPS told me that:

- SAU has identified that fraudulent income comprises the greatest percentage of customer fraud in LPS data. This is where the claimant has failed to declare or provide evidence to the Social Security Agency on earnings or other income that would reduce their entitlement to Housing Benefit/Rate Relief. To address this LPS will be introducing a review of existing claims to obtain updates from claimants to reassess Housing Benefit/Rate Relief. There will be a particular focus on claimants who have declared a level of income in previous years but have not been asked to provide recent details to verify entitlement.

15. My previous reports detailed particular differences between Housing Benefit for owner occupiers and all other 'means tested' social security benefits. I acknowledge that, in particular, all other 'means tested' social security benefits have a maximum two week payment period, whereas LPS awards are for the rating year in which the award is made with a maximum of one year in advance.
16. Where an overpayment has occurred, LPS will reassess the liability for the rating year and issue the customer with a revised rate bill once the change has been processed. I note that ratepayers' entitlement to Rate Relief may increase if their Housing Benefit reduces.
17. LPS considers that the results of its own Housing Benefit Quality Assurance Team's checks are more appropriate than those of SAU because procedural/ financial checks are undertaken daily on live claims to allow management to address errors immediately with staff. The accuracy figures are therefore a measure of the processing accuracy by LPS during the period rather than of payments made. However, SAU checks look at all claims which give rise to payments in the period not just changes which require processing by LPS. LPS throughout 2016/17 reported an average payment accuracy level of 98.0% compared to 94.7% reported by SAU. LPS expects that its processing accuracy of 98.0% will continue to increase the payment accuracy reported by SAU over time as more claims are revisited and historic information is updated and corrected.

Further Actions to reduce levels of fraud and error

18. I asked LPS what steps it is currently taking to address the significant levels of fraud and error that remain and to comment on the results of these efforts to date. LPS told me that:
 - It has a team responsible for reviewing potentially high risk cases in respect of claimants in receipt of occupational pensions. 9,183 cases were identified as high risk. To date 6,807 of these cases have been reviewed and a further 88 cases were reviewed but awaiting customer response. Of the cases reviewed 170 required amendment and resulted in a total clawback/recovery of approximately £320 per week. LPS expects that this will assist in the reduction of customer fraud and error as LPS proactively clarifies anomalies identified in claims. Whereas this was originally intended to be a one off exercise, the process will continue as part of the new fraud plan.
 - It has been working closely with DfC in reconciling differences between data held on respective IT systems. Again this enables LPS to proactively identify and rectify anomalies.

LPS advised that the success of these actions have contributed towards the improvement of the SAU financial accuracy position of 94.7% at December 2016 against the target of 91 per cent in the LPS Operating Plan 2016/17 a 3.9% improvement from the 90.8% reported by SAU in December 2015.

19. LPS was also asked whether they had any new measures proposed for 2017/18 to further reduce the levels of fraud and error. I was informed, as per paragraph 14 above, that LPS has implemented a review of cases where no manual intervention has been applied since the initial claim, when the claimant declared income. In this area claimants' circumstances may have changed since their initial claim but LPS has not been updated. LPS has already completed a review of 8,755 cases and requested additional information on a further 1,571 cases. It is expected that the introduction of WURTI will contribute to this review and that this exercise will also now form part of the fraud plan, which also includes using the LPS Registration Database (Landweb) as a method of obtaining confirmation of property owners.
20. As the backlog in outstanding claim actions reduces, LPS anticipates that the existing resource complement will have the capacity to conduct further case reviews of existing claims assuming there is no increase in workload or reduction in resources. However, the Suspension of the Assembly in January 2017 meant that the legislation required to set the regional rate had to be processed as an Order in Council at Westminster. This Order did not receive Royal Assent until 27 April 2017 and resulted in a delay in the calculation and issue of rate bills, and a subsequent delay in processing outstanding claims.
21. Despite these actions, the level of fraud and error continues to remain significantly high over the past 5 years and my opinion on regularity is still qualified on this basis.

Other Matters

22. I gave an undertaking to the Public Accounts Committee at its meeting on 24 October 2012⁵ to monitor progress on the recommendations made in its report. In the following paragraphs 23 – 28 I have, therefore, provided an update on particular issues raised in the report.

Outstanding Valuation Caseload

23. There has been a fall in the outstanding non-domestic valuation caseload with 4,750 cases outstanding at 31 March 2017 (6,629 cases at 31 March 2016). By 31 March 2017, LPS had cleared the Stage 1 (Application to District Valuer) cases arising from the Non-Domestic Revaluation 2015 exercise, with approximately 25% of these progressing to Stage 2 (Appeal to Commissioner of Valuations). This resulted in a larger number of Stage 2 cases in hand at year end. LPS anticipates that this will be a temporary situation and that the number of non-domestic cases in hand will continue to reduce going forward. I am pleased to note the reduction in the number of cases outstanding at year end given the additional workload associated with Revaluation 2015. I also note a further fall in the number of domestic cases in hand at 31 March 2017 to 10,679 (11,591 at 31 March 2016). LPS has told me that for 2017/18 it has a target for cases to be completed within 90 days across their primary work streams. I welcome this development and look forward to continued improvement in average case processing times.
24. The estimated impact on the rate revenue figure of the outstanding domestic and non-domestic caseload at 31 March 2017 is no more than £2.7 million (£4.8 million at 31 March 2016). This reflected negative growth in the non-domestic Valuation List during 2016/17.

Vacancy Discharges

25. LPS continues to undertake a programme of inspections of vacant properties in conjunction with the new local councils. The percentage of properties inspected was increased to 20%, which exceeded LPS' target of 15%. It should be noted that during 2016/17 LPS' vacancy inspection strategy in addition to high value empty property, also focussed on low value properties with a NAV less than £2,000, which when empty attract a full exemption from rating liability. This shift of focus is reflected in the outcomes.
26. The results of the inspection programme indicate the level of error in vacancy discharges, applied by LPS to ratepayer accounts, was no more than £2.43 million (£1.81 million in 2015/16). This level of error has increased by 34% from 2015/16 and remains relatively high in terms of the overall vacancy discharge figure, although not material to my regularity opinion. .

Ratepayer Debt

27. The level of ratepayer debt at year end has fallen for the fourth consecutive year from £142.7 million at 31 March 2016 to £131.7 million at 31 March 2017. The debt written off in year has also fallen from £28.6 million in 2015/16 to £20.7 million in 2016/17, however the impairment of debt rose by £1.4 million in year from £35.2 million at 31 March 2016 to £36.6 million at 31 March 2017. It is encouraging that both the overall level of ratepayer debt and the levels of write-off have fallen significantly in year.

⁵ Evidence on the Northern Ireland Audit Office Report 'Statement of Rate Levy and Collection 2009/10 and 2010/11'. Public Accounts Committee Report together with Minutes of Proceedings of the Committee relating to the report and the Minutes of Evidence printed 12 December 2012- NIA 88/11-15.

28. LPS told me that the improvement is a reflection of the continued impact of its new debt strategy, combined with several measures implemented during 2016/17 to improve collection including:
- Improvement of customer segmentation;
 - A pilot with external collection agencies such as Stubbs Gazette to target uncollectable debt;
 - Continued data cleansing;
 - Implementation of a new Enforcement of Judgements Office (EJO) interface which created efficiencies in the recovery process;
 - Automatic billing for new domestic and the domestic element of mixed hereditaments;
 - An interactive Direct Debit mandate for customers; and
 - Introduction of a new Short Messaging Service (SMS) and e-mail reminder for turn of year discount to improve levels of customer compliance and expanding the Landlord SMS reminder service.

Conclusion

29. I consider the estimated levels of fraud and error in Housing Benefit expenditure, administered by LPS, despite the reduction, to be exceptionally high. I have therefore qualified my audit opinion on the regularity of this benefit expenditure contained within the LPS Trust Statement – Rate Levy Accruals Account 2016/17.
30. LPS has put in place a number of practices designed to reduce the overall level of debt. However, debt levels remain high and I would urge LPS to continue these practices to maximise the revenue available to the Northern Ireland Executive in pursuit of its commitment to economic and social development in Northern Ireland.

SECTION 2: LPS FRAUD - APPLICATION BASED RATE REBATE

Introduction

1. This section of the report provides details on a fraud that occurred in the Land & Property Services (LPS) between May 2013 and September 2015. The amount misappropriated was £129,772.22, although the loss of revenue would be £134,283.83 if adjusted for the time value of money.
2. The fraud was perpetrated by an employee, Mr Davidson, by issuing fictitious rate refunds against certain properties and diverting the payments to bank accounts under his control.
3. It was detected in November 2015 by a staff member who identified some irregularities in a temporary incapable refund⁶.
4. On 18 December 2015, Mr Davidson was suspended without pay with the case having been referred to the Group Fraud Investigation Service (GFIS). GFIS began liaising with the PSNI on 17 December 2015 with a view to submitting an evidence pack to them. On 22 December 2015, GFIS formerly referred the case to the PSNI for investigation.
5. Following legal proceedings, he pleaded guilty to the fraud. In October 2016, he received a two and a half year sentence suspended for two years. A confiscation order was also put in place to recoup the amount stolen. (Annex A contains a timeline of events from the discovery of the first irregularities by the staff member).

How the fraud was committed

6. The fraudster was an experienced Administrative Officer working in the Application Based Rate Rebate (ABRR) Team in LPS Headquarters, Belfast. This team is responsible for the processing of application based rate rebates, whereby the ratepayer notifies LPS of a change in circumstances regarding their property and applies for a discharge on their rate demand as a result of the change. This can generate a refund to the ratepayer in cases where the ratepayer has already paid the full liability.
7. The fraud was committed by manipulating 16 refunds for two specific types of rebate, Temporary Incapable Rebate (approximately £100,000) and Non-domestic Vacant Rating (NDVR) Rebate (approximately £30,000). The steps taken to perpetrate the fraud were:
 - **Creating fictitious applications for Temporary Incapable Rebate for a series of properties all on the same date and all payable to the same person, a purported agent;**
 - **Forging the signature of a Senior Valuer to approve the applications;**
 - **Creating fictitious applications for periods of Non-domestic Vacancy Rebate⁷;**
 - **Amending ratepayer details on the ratepayer accounts;**
 - **Changing payee addresses to redirect refunds to an address connected with him; and**
 - **Changing details back to the original after payment was made.**
8. There was an acceleration in his activities during September 2015 in advance of a planned change to the control system. The figures and dates in Table 1 clearly demonstrate this. The change involved the creation of a record in the Ratepayer's account whenever the Billing Address screen is altered. This means there is an audit trail of changes which can be verified. This control change would have eliminated the opportunity for the fraud to be continued.

⁶ A non-domestic property may be affected by a temporary change of circumstance which could potentially make the property incapable of beneficial occupation giving rise to a reduction in the rates liability.

⁷ Rates are not payable for three months from either the date a non-domestic property becomes vacant or the date Land & Property Services (LPS) has determined as a completion day. After the three month free period, rates will be billed at 50% of the normal occupied amount.

Table 1: Fraudulent Payments raised during the period May 2013 to September 2015

Rebate	Amount (£)	Date Raised
Non-Domestic Vacant Rating	4,473.00	17/05/13
	1,801.06	12/02/14
	11,381.98	12/02/14
	5,400.18	29/08/14
	4,600.98	09/01/15
	2,517.31	09/01/15
Total	30,174.51	
Temporary Incapable	9,735.22	24/07/15
	12,226.19	18/09/15
	37,799.30	18/09/15
	12,124.30	18/09/15
	21,395.83	18/09/15
	6,316.87	18/09/15
Total	99,597.71	
OVERALL TOTAL	£129,772.22	

How the fraud was discovered

9. The fraud was initially uncovered through the vigilance of a LPS staff member. They noted an unusual Temporary Incapable refund on a property which, from their personal knowledge, they suspected was inappropriate. The transaction was then queried with the ABRR Team in LPS Headquarters, Belfast. The ABRR Team initially advised there were no issues with the refund. The staff member was not content so further enquiries were made.
10. A total of five refunds all issued on the same date to the same individual, all associated with the same retail park, were then identified. The billing names on these ratepayer accounts had all been changed on the same date. Investigation of the Valuation System revealed the refunds had not originated with the Valuation Team either. When the staff member established these issues regarding the legitimacy of the refunds, concerns were raised formally with their Line Manager.
11. A Senior Valuer in the Valuation Team was subsequently contacted who appeared to have approved a Temporary Incapable application form in respect of the queried property, a copy of which was saved on the Abbacus⁸ IT system. The Senior Valuer advised they were unaware of the case and suspected the signature had been forged. It was only then the issue was escalated to Senior Management and the LPS Fraud Response Plan and associated procedures triggered.

Control weaknesses that allowed the fraud to happen

12. The main control weaknesses that led to the perpetration of the fraud were:

- **The inadequate operational effectiveness of existing authorisation controls.**

The processing of a refund for either Temporary Incapables or NDVRs requires manager approval after input into Abbacus. This process is off-line. It requires paper copies of documentation to be prepared and signed off as evidence of review. This process did not operate as intended. Mr Davidson approached a different team manager in another section (with the appropriate authorisation levels) late in the evening after his Line Manager had left requesting urgent approval of refunds. The refunds were approved but without effective scrutiny or challenge as the refunds were outside the direct responsibility of the manager. LPS considered Mr Davidson to be 'an experienced, capable and trusted employee whose competence could be relied upon.'

⁸Abbacus is a fully managed service and customised rate collection system.

- **The lack of key IT controls to prevent unauthorised changes to standing data and generate an appropriate audit trail.**

Access to standing data on the system allowed him to change the ratepayer name and address prior to issue of the refund and to then change it back after issue. This did not raise an automatic log entry on the ratepayer's account therefore no audit trail of the postings existed.

Actions to investigate the fraud

13. Once a fraud was suspected the LPS Fraud Response plan and associated procedures were triggered and notification was sent to relevant parties including the LPS Chief Executive, the Permanent Secretary of the Department of Finance, the Head of GFIS and the Comptroller and Auditor General (the C&AG). The Head of GFIS appointed an investigator and LPS appointed a manager from its Revenue & Benefits section as sole contact for the PSNI when they commenced their investigation.
14. During meetings with LPS in December 2015 (when the suspected fraud was formally reported) GFIS advised LPS to examine all work undertaken by the suspected perpetrator to ascertain whether any further financial irregularities could be identified and to establish whether other staff members were involved. An independent member of staff, with previous audit experience, was tasked with this review.
15. This review began in early January 2016. It was based on a two strand approach:
 - Obtain details of all Temporary Incapable adjustments ever made to ensure they were genuine; and
 - Review details of all refunds issued to a number of addresses associated with the staff member who perpetrated the fraud.
16. The first strand identified ten transactions over six ratepayer accounts traced to the refund stage which had payable orders processed by the same staff member. Of these refunds, one was genuine and due to the ratepayer. In this instance the ratepayer had been left out of pocket.
17. The second strand of the investigation revolved around the use of billing addresses (ten in total) for refunds associated with Mr Davidson. In total 43 transactions over 15 ratepayer accounts were suspected to be fraudulent.
18. After investigation 16 fraudulent refunds amounting to £129,772.22 were identified. These were issued to a named person associated with him.
19. Some additional IT investigative work was also completed. LPS traced on the Abbacus system when changes were made to the billing names and addresses. LPS was able to confirm that approximately 94% of the changes had been made by Mr Davidson just before the payable orders were issued.
20. The report on the independent investigation was presented to Senior Management and communicated to GFIS, PSNI and Departmental Human Resources. It was concluded from the investigative work that:
 - **All transactions in the final list of fraudulent refunds were created by only one member of staff, namely the fraudster. He was acting alone and not in collusion with other members of the ABRR Team.**
 - **All refunds were issued to addresses associated with him.**

Conclusions and Recommendations of GFIS

21. The results of the above investigation were considered by GFIS which subsequently produced a separate report on 24 March 2016. This report considered *'the report (from the above investigation) provided reasonable assurance that the full scope of the alleged fraudulent transactions instigated by Mr Davidson during his employment in LPS has been identified'*.
22. As well as the five initial suspected frauds, GFIS was content that the additional findings from the above investigation had been notified to the PSNI by LPS. The GFIS report stated *'We can also take assurance from the fact that the Police, as part of their criminal investigation, have certified Financial Investigators, who are also analysing his bank accounts. Therefore any credits to the bank accounts from the LPS should be readily identified and can be cross checked against the results of the LPS investigation which the Police have.'* LPS has advised that the PSNI also confirmed these findings.

23. The GFIS report made a series of recommendations, some of which highlighted system control weaknesses to be immediately addressed. These are summarised below.
- **The risk that someone could access the system, change the billing name and address, issue a cheque and then change the details back again without being detected is a key control failure in the system requiring immediate attention.**
 - **The period of fraudulent activity (from May 2013 to its identification in November 2015) was an indicator that although management checks were in place, they were not effective. In addition management should be checking to ensure where information is required to be input into the system, it is done. For example log lines which record any changes in billing address against specific accounts were not filled in so an audit trail could not be verified. At that time a system fix to automatically log address changes was underway and implemented shortly after the fraud.**
 - **There was a high level of trust between management and staff which may have created opportunities which were taken advantage of.**
24. Additional work was also undertaken by GFIS to establish what barriers the member of staff faced when they attempted to raise concerns about an alleged fraud through the ABRR Team and her Line Management.
25. The staff member who reported the suspected fraud did not consider themselves a whistleblower. They considered they were reporting genuine concerns but in doing so felt unsupported at the time. The GFIS report indicated the matter had a negative impact on the staff member. The Chief Executive of LPS upon hearing of their difficulties, immediately rang and arranged to meet them, and thanked them for the commitment, diligence and perseverance in bringing the issue forward. He also reassured them that lessons would be learnt and applied as a consequence of their experience.
26. The recommendations made by GFIS focussed on:
- **The review of policies and procedures in relation to whistleblowing to ensure all levels of management are aware of their responsibilities when a member of staff reports a genuine concern; and**
 - **Making efforts to ensure there are clear and open channels of communication at management levels across the business areas of LPS to allow issues to be fully and honestly pursued.**

Action taken to address ABRR system control weaknesses highlighted due to limitations in functionality

27. On 21 March 2016, the staff member who conducted the internal investigation was temporarily appointed as an independent manager to the ABRR Team and asked to carry out a review of processes and controls operated by this team. The processes under review were all Application Based Rate Reliefs, namely: Temporary Incapable, Non-domestic Vacant Rating, Lone pensioner Allowance, Disabled Persons Allowance, Empty Premises Relief and Rating of Empty Homes. The purpose of the review was to identify the controls in place and highlight any areas of improvement to help mitigate against any potential recurrence of fraudulent transactions and to reduce the level of potential misstatement/error that could arise.
28. The findings identified in the report of the above review were:
- **A limited number of in-built system controls giving rise to a disproportionate reliance on supervisory checks.⁹**
 - **Lack of current procedural documentation for all processes.**
 - **Staff with dual/multiple roles in the rating system.**
 - **A number of processing scenarios where the rating functionality is not set up and account adjustments are required. This gives rise to the development of off-line processes such as the Temporary Incapable rebate.**
 - **Poor audit trail of changes made to some standing data eg Ratepayers' names and addresses.**

⁹ The C&AG in the 2006/07 Financial Auditing and Reporting General Report noted key control problems with the Rating IT system. A number of points on the lack of basic controls expected to be key elements of most IT systems were raised, in particular the identification of errors being heavily dependent upon manual supervisory checks. Although the specific issues were addressed by LPS at the time, we note the continued reliance on such checks.

29. The report was produced in April 2016. It contained findings which demonstrate improvements have been made already in relation to the lessons learnt. These include:
- **The introduction of audit trails identifying changes to or removal of either ratepayer names or addresses.**
 - **Review of the audit trail by Management prior to authorisation of refunds.**
 - **Regular generation of reports showing staff with dual/multiple roles and review by management to ensure they are appropriate.**
 - **Use of the in-built sample generation report within Abbacus to select samples of 10% of all applications processed for management review.**
 - **Communication of the possible impact on a staff member's career, the LPS Team as a whole, and possibility of criminal record for engaging in a similar fraudulent activity.**
 - **The roll out of a "Back to Basics" training programme for staff to remind them of their Corporate Governance and Management responsibilities and highlight the importance of Whistle blowing.**
30. The report goes on to recommend additional changes which could be made to the system and the business itself to further strengthen controls and culture to mitigate against the risk of a similar fraud. The recommendations are sub-divided into short, medium and longer term. (See Annex B for details.)
31. The recommendations arising out of the fraud investigative work have been shared with the LPS Audit and Risk Committee and the LPS Management Board and also the Departmental Audit and Risk Committee and Board. They have been reviewed in detail and an action plan developed for their implementation. LPS continues to action the recommendations.

Lessons Learnt

32. An analysis of this fraud case has indicated a number of key lessons which if applied could enhance the integrity of any control environment, in particular, the LPS and its rating systems/procedures.

Staff with dual/multiple roles on a system

33. The holding of dual/multiple roles by a member of staff can result in an increased risk of potential fraud. No staff member should be granted dual/multiple permissions to both create and authorise transactions or refunds and LPS has confirmed that this is the case at a transactional level. LPS has also indicated that a review of the segregation of duties between those who authorise changes and those who make them is underway across all rating functions.

Supervisory and Managerial Checks

34. Management, through supervision and checking, needs to scrutinise the operation of controls as well as overseeing the work and performance of staff. Complacency in executing managerial checks cannot be tolerated. Fraud investigations as a matter of course should consider whether there has been a failure of supervisory checks and if necessary appropriate disciplinary action taken where they have occurred. LPS has advised me that the circumstances around the perceived complacency in executing checks and controls, and whether disciplinary actions was warranted, has been reviewed. LPS has concluded that there is no definitive evidence of failure to execute managerial check and controls. The perpetrator provided fraudulent documentation or took advantage of the 'caretaker' manager's limited knowledge of the off line paper based system. LPS considers it has, and continues to address this latter matter through its Back to Basic training programme.

Job Rotation

35. Job rotation should also be instigated on a regular basis to reduce the potential impact of over-familiarisation. Organisations such as LPS, should design and develop job rotation policies by considering risk prone or vulnerable areas, job levels at which such rotations need to be implemented and frequency.

Bespoke IT Systems

36. Bespoke IT Systems such as the Rating systems are frequently designed with limited in-built controls which can exert undue pressure on the requirement for supervisory checks. In addition, over time new processes can emerge which have not been accommodated within the existing system. This gives rise to off-line processes which can be subject to manipulation and are more prone to override. This was the case in LPS where a new rating service process ie Temporary Incapable accounts, could not be accommodated within the existing Valuation system. When designing a new IT system consideration needs to be given to building in safeguards against both internal and external fraud. LPS intends to replace the current IT systems within the next couple of years. One of the mandatory design requirements is that all rating service processes are automated, with robust IT internal controls incorporated within the solution.

Audit Trail/Log of information changes/amendments

37. The audit trail is a critical component in fraud detection. Strict adherence to the creation of an audit trail provides information proving the legitimacy of transactions. The presence of an audit trail requirement also serves to deter fraud. Employees who know that management monitors and tracks their work see less opportunity for fraudulent activity. Before the fraud was discovered, LPS had identified the need for this control and it was introduced in December 2015, and is likely to have accounted for the escalation of the fraud in September 2015.

Dealing with the fraud investigation

38. It is important to deal with a fraud definitively and swiftly as soon as it is identified. Promptness and accuracy is critical when reporting the details of a fraud investigation to ensure it is fair and impartial and the findings are creditable and do not prejudice any future legal proceedings. Once the fraud was formally reported LPS was quick to investigate and to instigate corrective action.

Fraud Awareness

39. Due to the vigilance of a staff member the fraud in LPS was detected. All staff have an ongoing role to play in the prevention of fraud. They must be aware of their role and reminded of it on a regular basis. As the opportunity for fraud increases during times of organisational change, it is essential that fraud awareness is given a high profile. Fraud awareness can be raised in a variety of ways, for example, training programmes, fraud and whistleblowing policies, use of intranet and staff bulletins and tailored training for staff in high risk areas.

Whistleblowing Arrangements

40. Employees are often the 'eyes and ears' within an organisation and therefore an invaluable resource in helping detect fraud. As part of an open and ethical culture, staff should be encouraged to raise concerns about possible fraud and it is essential that they have a secure and reliable means of doing so. Commitment from the top of the organisation that concerns will be welcomed and treated seriously is paramount to a successful policy, coupled with reassurance that employees will not be victimised or suffer detriment for raising concerns. LPS has advised me that it is fully committed to encouraging all staff to raise any concerns immediately with management. LPS is re-emphasising this to all staff. LPS has advised me it is committed to providing refresher training to all staff.

Conclusion

41. I find it surprising that some of the control weaknesses which allowed the fraud to be perpetrated were basic, for example inadequate supervisory checks, audit logs etc. I welcome, however, the good practice evident during the investigation of the fraud.
42. Basic control weaknesses, associated with public sector frauds, have previously been reported on by my Office.¹⁰ It is critical that public sector organisations learn from these.
43. LPS is currently in pursuit of the amount defrauded following the issue of a confiscation order to recoup the amount stolen. LPS has advised me that a total of £97,500 has been recovered by the Northern Ireland Courts and Tribunal Services and that the PSNI has a team which revisits confiscations every few years to check for the availability of further money or obtained assets. I expect this case will be reviewed regularly by LPS and should circumstances change and further funds become available, this will be pursued.
44. I will continue to monitor progress regarding the implementation of recommendations emanating from the fraud investigation.



KJ Donnelly

Comptroller and Auditor General

Northern Ireland Audit Office
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25 October 2017

¹⁰ Examples include:

The report on the Northern Ireland Appropriation Accounts 2000-01 Department of Enterprise, Trade and Investment – Vote B: Other Economic Support Measures, Administration, Energy and Miscellaneous Services- Local Enterprise Development Unit : Internal fraud.

Internal Fraud on Ordnance Survey of Northern Ireland 15 March 2007

Internal Fraud in the Sports Institute for Northern Ireland 19 November 2008

Annex A

Timeline of Events from discovery of the first irregularities by the staff member

13 November 2015	Unusual transactions connected with a refund identified by member of staff and queried with the ABRR Team.
16 November 2015	Initial follow-up from the ABRR Team with the Regional Office.
30 November 2015	Further discussions between the ABRR Team and the Regional Office regarding the unusual transactions.
2 December 2015	Staff member drew the attention of their line manager to the unusual transactions.
9 December 2015	ABRR Team Manager contacted member of staff in the Regional Office.
14 December 2015	Matter was drawn to the attention of senior management in LPS Revenues and Benefits after the identification of supplementary documentation which appeared to be forged.
15 December 2015	Fraud was confirmed and the Fraud Risk and Response Plan was triggered with relevant personnel including the LPS Chief Executive, Permanent Secretary of DoF, GFIS and the C&AG being advised. GFIS appointed an investigator.
18 December 2015	Mr Davidson was immediately suspended without pay.
22 December 2015	GFIS compiled a full report outlining the case, plus details of witnesses and evidence, and this was formerly referred to the PSNI for investigation.
Early January 2016	Independent staff member with audit experience was tasked with examining the work undertaken by the perpetrator of the fraud with a view to determining the extent and scope of the fraud.
27 January 2016	Investigation report presented to Senior Management and communicated to GFIS, PSNI and Departmental Human Resources.
21 March 2016	Independent staff member who conducted the internal investigation, was temporarily appointed as an independent manager to the ABRR team to carry out a review of processes and controls operated by the team.
24 March 2016	Results of the internal investigation considered by GFIS with the subsequent production of a separate report with a series of recommendations.
28 April 2016	Paper submitted to Departmental Board on emerging lessons learnt from the investigation.
8 June 2016	He was charged with the fraud at Laganside Court.
26 September 2016	He pleaded guilty to the fraud.
28 October 2016	He was sentenced to two and a half years imprisonment, suspended for two years and a confiscation plan instigated to recoup the amounts stolen.

10 March 2017	At the Confiscation Order court hearing he was ordered to pay back monies to LPS from the sale of his asset, namely property, within six months or the suspension of his sentencing would be lifted.
19 August 2017	A cheque from the sale of his property was received by LPS to set against the monies which were misappropriated.

Annex B

Recommendations highlighted by the LPS investigation report

RECOMMENDATIONS SHORT TERM (3 – 6 MONTHS)	UPDATE¹¹
<p>Monthly reconciliation between Operational Finance records of refunds posted with the applications processed by the ABRR Team.</p>	<p>IMPLEMENTED</p> <p>The ABRR team is now processing all applications on the Abbacus system and receiving reports from the Diver Finance system on a monthly basis for reconciliation back to Abbacus to ensure that there are no issues regarding completeness or accuracy.</p>
<p>Improved communication within teams and delivery of training as to the appropriate authorisation levels and procedures and required supporting documentation.</p>	<p>IMPLEMENTED</p> <p>Discussed with Management and raised at team briefs to remind staff.</p>
<p>Supporting documentation and evidence of actual vacancy to be sought, (supplemented by vacancy inspections) rather than relying on phone calls from ratepayers, prior to awarding of NDVR rebate.</p>	<p>PARTIALLY IMPLEMENTED – SHORT TERM</p> <p>There has been a rotation of teams and Management structures within ABRR which has led to the disbandment of the NDVR Team.</p> <p>However on review of these issues it was noted that the staff dealing with these claims do request supporting documentation eg leases, contact from owners etc.</p>
<p>Performance of a review of ratepayer account adjustments to ensure they are properly completed, authorised and supported by appropriate documentation.</p>	<p>ONGOING but LONG TERM</p> <p>LPS is in the process of procuring a new Rating digital solution which will require all applications for vacancy to be completed through on-line self-service. In addition, LPS is in the process of strengthening the Rating legislation to compel ratepayers to advise LPS of occupancy status changes.</p>
	<p>ONGOING</p> <p>This is an ongoing review in line with the move to a new Rating System and Senior Management is gathering details of the individual account adjustments that its teams use and we will then review these in line with the reasons for the account adjustments and see if there are other ways to complete the necessary work. The new Rating digital solution will specify that all Rating processes are integral parts of the system functionality.</p>

¹¹ Update on progress against recommendations provided by Land & Property Services

RECOMMENDATIONS MEDIUM TERM (6 – 12 MONTHS)	UPDATE¹¹
Introduction of a new team to assist in the review of processes and controls.	<p>ONGOING</p> <p>Work is underway to restructure R&B to include a Quality and Governance function. Once set up, work will commence on the establishment of a new quality function and team.</p>
Introduction of job rotation to minimise over-reliance on specific staff members.	<p>IMPLEMENTED</p> <p>There has been a significant reorganisation of the ABRR team in the past year with new Line Management and team reorganisation.</p> <p>Similarly this has recently been completed in the Landlords/Central Collection teams as well and new Line Management has been installed over the Regional Offices.</p>
Inclusion of articles in the monthly team briefs to highlight the importance of the whistleblowing policy and remind staff of their responsibilities.	<p>IMPLEMENTED</p> <p>DoF has also updated their Standards of Conduct and Whistle blowing Policy in January 2017 and published it on the intranet for staff review.</p>
Review of the segregation of duties between those who process changes and those who authorise them across all rating functions.	<p>ONGOING</p> <p>This is currently ongoing as part of the PADS review.</p>

RECOMMENDATIONS LONG TERM (1 YEAR +)	UPDATE¹¹
<p>Amendment to standard roles within Abbacus to address the need for staff to have access to multiple areas of the rating system which ensuring the correct controls are in place and any segregation of duties issues are mitigated.</p>	<p>ONGOING</p> <p>The dual roles within the system are being monitored on a monthly basis but the standard roles are being reviewed as part of the implementation of the new Rating System.</p>
<p>Ensure the replacement of the LPS IT Systems, scheduled in the coming years, is fully integrated with additional automation of review and approval to minimise the risk of incomplete data and segregation of duties.</p>	<p>ONGOING</p> <p>There is an ongoing NOVA project regarding the requirements and functionality of the new Rating System which will address these issues.</p>



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