

Financial Auditing and Reporting: General Report by the Comptroller and Auditor General for Northern Ireland – 2015





Northern Ireland Audit Office

Financial Auditing and Reporting: General Report by the Comptroller and Auditor General for Northern Ireland – 2015

Published 24 November 2015

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

K J Donnelly

Comptroller and Auditor General

Northern Ireland Audit Office

24 November 2015

The Comptroller and Auditor General is the head of the Northern Ireland Audit Office employing some 135 staff. He, and the Northern Ireland Audit Office are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to the Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

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Abbreviations

AAD	Audit and Assurance Department
ALB	Arm's Length Body
AOCC	Assembly Ombudsman and Commissioner for Complaints
C&AG	Comptroller and Auditor General
CMS	Child Maintenance Service
DARD	Department of Agriculture and Rural Development
DCAL	Department of Culture, Arts and Leisure
DE	Department of Education
DEL	Department for Employment and Learning
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
DHSSPS	Department of Health, Social Services and Public Safety
DLO	Direct Labour Organisation
DOE	Department of the Environment
DOJ	Department of Justice
DRD	Department for Regional Development
DSD	Department for Social Development
DWP	Department of Work and Pensions
ELB	Education and Library Board
ESA	Employment Support Allowance
EU	European Union
FSA	Food Standards Agency
HMRC	Her Majesty's Revenue and Customs
IB	Incapacity Benefit
IS	Income Support
LPS	Land and Property Services

Abbreviations

LSANI	Legal Services Agency Northern Ireland
NDPB	Non Departmental Public Body
NI	Northern Ireland
NIAC	Northern Ireland Assembly Commission
NIAO	Northern Ireland Audit Office
NIAUR	Northern Ireland Authority for Utility Regulation
NICF	Northern Ireland Consolidated Fund
NIEC	Northern Ireland Events Company
NIHE	Northern Ireland Housing Executive
NILA	Northern Ireland Library Authority
NILGOSC	Northern Ireland Local Government Officers' Superannuation Committee
OFMDFM	Office of the First Minister and deputy First Minister
PAC	Public Accounts Committee
PCaW	Public Concern at Work
PPS	Public Prosecution Service
PSNI	Police Service of Northern Ireland
RfR	Request for Resources
SAU	Standards Assurance Unit
SSA	Social Security Agency
SSE	Spring Supplementary Estimate
TUPE	Transfer of Undertakings Protection of Employment
UK	United Kingdom
YJA	Youth Justice Agency

Foreword



Foreword

This report to the Northern Ireland Assembly summarises the results of the financial audit work undertaken on my behalf by the Northern Ireland Audit Office (NIAO). It deals primarily with the 2014-15 accounts of central government bodies but also considers a number of legacy accounts from previous accounting periods. It does not include the results of my examination of the accounts of those bodies within the health and social care sector which I report on separately. The Local Government Auditor produces her own annual report on financial audit work in the local government sector.

The primary aim of the NIAO's financial audit service is to provide objective information, advice and assurance to the Northern Ireland Assembly on how public funds have been used. In addition, we strive to assist audited bodies to improve their financial management processes, governance and propriety in the conduct of public business. This is achieved through our mainstream financial audit work, attendance at audit committees and production of good practice guides. Our statutory independence from Government affords us the opportunity to critically evaluate the performance of public bodies in an unbiased manner. Meanwhile, our close partnership with the Public Accounts Committee (PAC) enables us to assist them in holding public bodies to account.

The public sector is currently facing a number of financial uncertainties and there are significant budgetary pressures on the Northern Ireland (NI) block grant which are likely to continue for the foreseeable future. Department of Finance and Personnel projections suggest that Northern Ireland could see its resource departmental expenditure limit fall by a further 13% in real terms by the end of the decade. There is already a real terms reduction for 2015-16.

The Executive's budget prioritises the protection of key front-line public services; investments that

underpin economic growth in Northern Ireland; and putting in place the foundations for the reform and restructuring of our public sector.

The public sector has made significant savings in recent years. It is clearly necessary to continue to pursue efficiencies and cost reductions wherever possible. This includes through restructuring and reducing permanent staff numbers.

Despite these reductions and uncertainties the important work of public services must continue. NIAO will play its part. We continue to encourage and support best practice in financial management; promote the proper conduct of public business; and promote improvement in the efficiency and quality of services provided to the public.

At a time when public finances are under increasing scrutiny and with the planned public spending cuts in departmental allocations, my General Report should prompt a focus on the qualified opinions and reports issued on departmental resource accounts and other accounts for 2014-15 to enable the lessons to be applied in future years.

The standards of financial accounting continue to remain high, demonstrated by the quality and timeliness of financial reporting. Many of the qualified audit opinions this year result from failures to comply with instructions from governing authorities, including the Department of Finance and Personnel and the European Union. There were two instances where Departments have been unable to contain expenditure within statutory limits voted and approved by the Assembly. This results in an excess vote position which is irregular, that is, not in occurrence with the intention of the Assembly.

Foreword

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

The need for effective, efficient and independent audit scrutiny of public sector bodies is essential as the competing demands on public sector resources continue to grow. The experience and knowledge of my staff within the Northern Ireland Audit Office ensures that they are fully equipped to meet the challenge of providing this vital service. I would like to thank them for their continued professionalism in this work. I am also very grateful to the staff in the Northern Ireland Civil Service and the other public bodies audited for their continuing cooperation.

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24 November 2015

Section One: Northern Ireland Consolidated Fund 2014-15 – Revenue Accounts



Section One: Northern Ireland Consolidated Fund 2014-15 – Revenue Accounts

Introduction

- 1.1 The Northern Ireland Consolidated Fund (NICF) is the Executive's current account (operating on a receipts and payments basis). All payments out of the NICF must have legislative authority and may either be charged to it directly by statute (known as Standing Services), or voted by the Assembly each year in the Budget Bills (known as Supply Services). Government Accounts Branch within the Department of Finance and Personnel (DFP) controls the NICF, subject to the Comptroller and Auditor General (C&AG) authorising payments by, and determines arrangements for payments into NICF.
- 1.2 Payments into and out of the NICF are reported annually in the Public Income

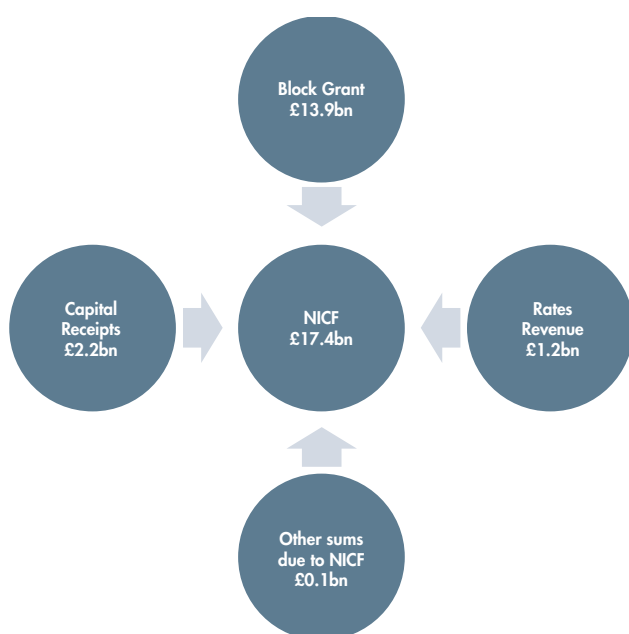
and Expenditure Account which DFP prepares and submits for audit by the Comptroller and Auditor General (C&AG), in accordance with the Exchequer and Financial Provisions Act (Northern Ireland) 1950. I am content that the 2014-15 financial statements of the Public Income and Expenditure account properly present the receipts and payments and that they are regular.

Payments into the Northern Ireland Consolidated Fund

- 1.3 An analysis of the amounts paid into the NICF in 2014-15 is shown in **Figure 1**.
- 1.4 Payments into the NICF are categorised as follows:

- **Block Grant:** this is paid by the Secretary of State for Northern Ireland out of money provided by the UK Parliament and is, subject to the limit set by HM Treasury, the balance required to bring the level of public income in Northern Ireland up to the amount needed to cover public expenditure;
- **Capital Receipts:** the Exchequer and Financial Provisions Act (Northern Ireland) 1950 provides that all money raised by the creation of debt is payable into the NICF, together with receipts representing repayment of loans made from the fund and interest on those loans;

Figure 1: Analysis of Payments into the NICF



Source: Public Income and Expenditure Account 2014-15

- **Rates Revenue:** this is rates income (regional and district) which is due for each property in Northern Ireland and is billed and collected by Land & Property Services (LPS); and
- **Consolidated Fund Extra Receipts and other sums due to the NICF:** these are receipts which are not the product of taxation, for example, monies received from the EU.

1.5 Rates Revenue (regional and district), which is billed and collected by LPS, is accounted for in the LPS Trust Statement – Rate Levy Accruals Account 2013-14 and is subject to separate audit. I am content that the 2013-14 financial statements of the LPS Trust Statement – Rate Levy Accruals Account properly present the receipts and payments and that they are regular, except for £6.6 million of estimated fraud and error in housing benefit expenditure (see **Figure 8** for further details).

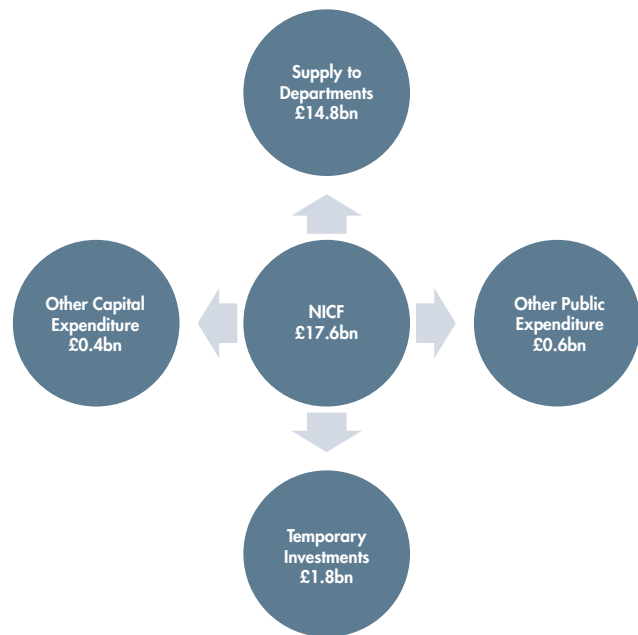
Payments out of the Northern Ireland Consolidated Fund

1.6 An analysis of the amounts paid out of the NICF in 2014-15 is shown in **Figure 2**.

1.7 Payments out of the NICF are categorised as follows:

- **Supply to Departments:** payments required to meet central government expenditure i.e. from departmental Supply Estimates. Money is voted by

Figure 2: Analysis of Payments out of the NICF



Source: Public Income and Expenditure Account 2014-15

the Assembly for a particular financial year. Statutory authority for the necessary payments from the NICF is given by the Budget Act for the year in question, which also grants authority for what the Assembly intends the money to be used for;

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

Section One: Northern Ireland Consolidated Fund 2014-15 – Revenue Accounts

- **Other Public Expenditure:** payments for services which the Assembly has decided by statute should be met directly from the NICF, for example, interest on loans from the National Loans Fund; judicial salaries; and the salary and pension of the Northern Ireland Ombudsman.

Departmental Resource Accounts which are prepared and audited by me under the Government Resource and Accounts Act (Northern Ireland) 2001. The results of my audit of these Resource Accounts are included at **Section 2** of this Report.

1.10 **Figure 3** shows the amount of supply received by departments in Northern Ireland in 2014-15.

1.11 The two largest Departments are DHSSPS and DSD each receiving supply of more than £3.5bn.

Growing Pressure on public spending

1.8 In recent years there has been considerable focus on a need to reduce public spending. There is every indication that this will continue into the future. In order to control UK public expenditure, HM Treasury sets expenditure control totals for all government departments for forthcoming years within Spending Reviews. Spending Review 2010 set public expenditure control totals for the financial years 2011-12 to 2014-15. Spending Round 2013 has set the expenditure totals for 2015-16.

1.9 The budgets for the devolved administrations within the UK – the Scottish Government, the Welsh Government and the Northern Ireland Executive – are included within these Spending Reviews. The total amount allocated to Northern Ireland from Westminster within a Spending Review is known as the 'NI Spending Review settlement'. The NI Spending Review settlement underpins the local Budget and Estimates processes. The amounts voted in the Estimates process place limits on supply accessed by departments and accounted for in

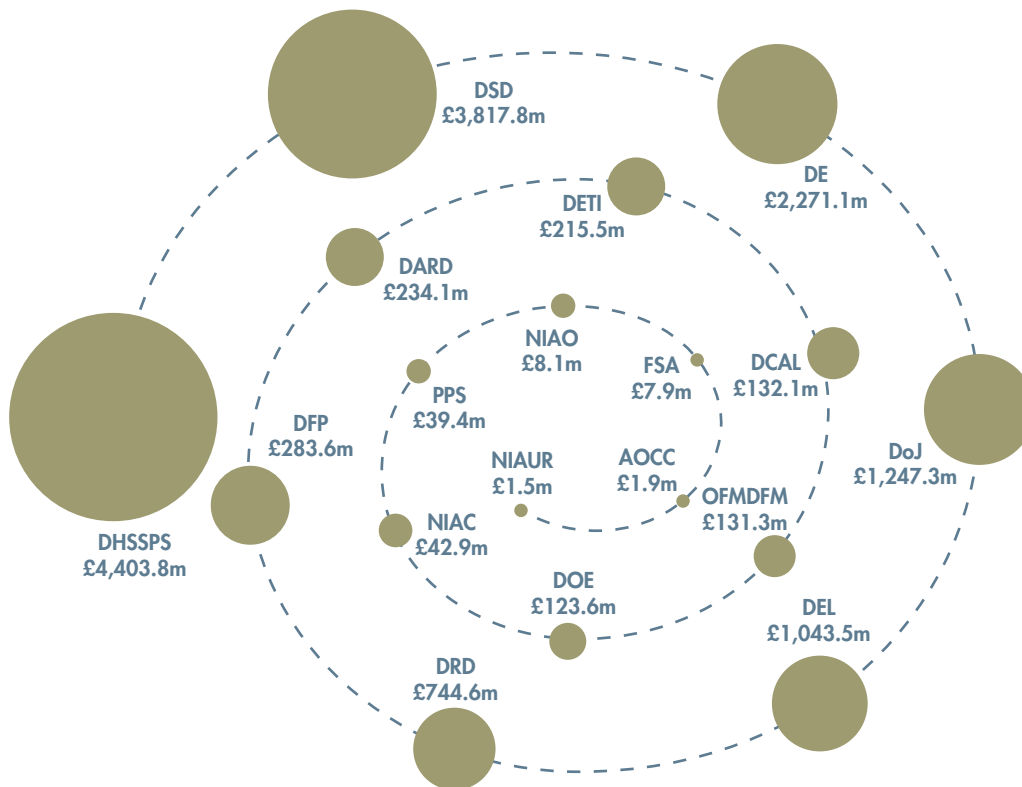
Voluntary Exit Scheme

1.12 In response to the significant budgetary pressures facing departments, the NI Executive asked DFP to bring forward proposals to effect a paybill reduction. One of the proposals was a NI Civil Service wide Voluntary Exit Scheme (VES). The scheme was launched on 2 March 2015 and is funded through a facility provided by the Stormont House Agreement which gives the NI Executive access to funding of up to £700m¹ over a four year period, to fund early exit schemes.

1.13 The first tranche of early exits occurred at the end of September 2015 and the second tranche of staff exiting are scheduled to leave at the end of November. It is expected subsequent tranches will allow more staff exits at the end of January and March 2016.

1 £200m in 2015-16; £200m in 2016-17; £200m in 2017-18 and £100m in 2018-19.

Figure 3: NI supply figures received by Department in 2014-15.



Source: Department of Finance and Personnel

The Future

- 1.14 The NI Executive has announced that the number of NICS Departments will reduce from the current 12 to 9, in what will be the most extensive departmental re-organisation since 1999. In light of the already significant budgetary pressures, it can be anticipated that the nine Departments will be expected to achieve more with fewer resources.
- 1.15 The demographics of NI's population is changing and public expectation of service delivery continues to grow. New ways are therefore needed to

increase the value for money from public spending and improve the quality of public services. To achieve greater savings without detriment to those using public services, departments will be looking for innovative ways to organise and deliver services. To succeed, departments will need to continue to develop new skills, new methods of engagement with those using public services and new innovative thinking about reforming services.

Section Two: Qualified Opinions and Reports on Accounts



Section Two: Qualified Opinions and Reports on Accounts

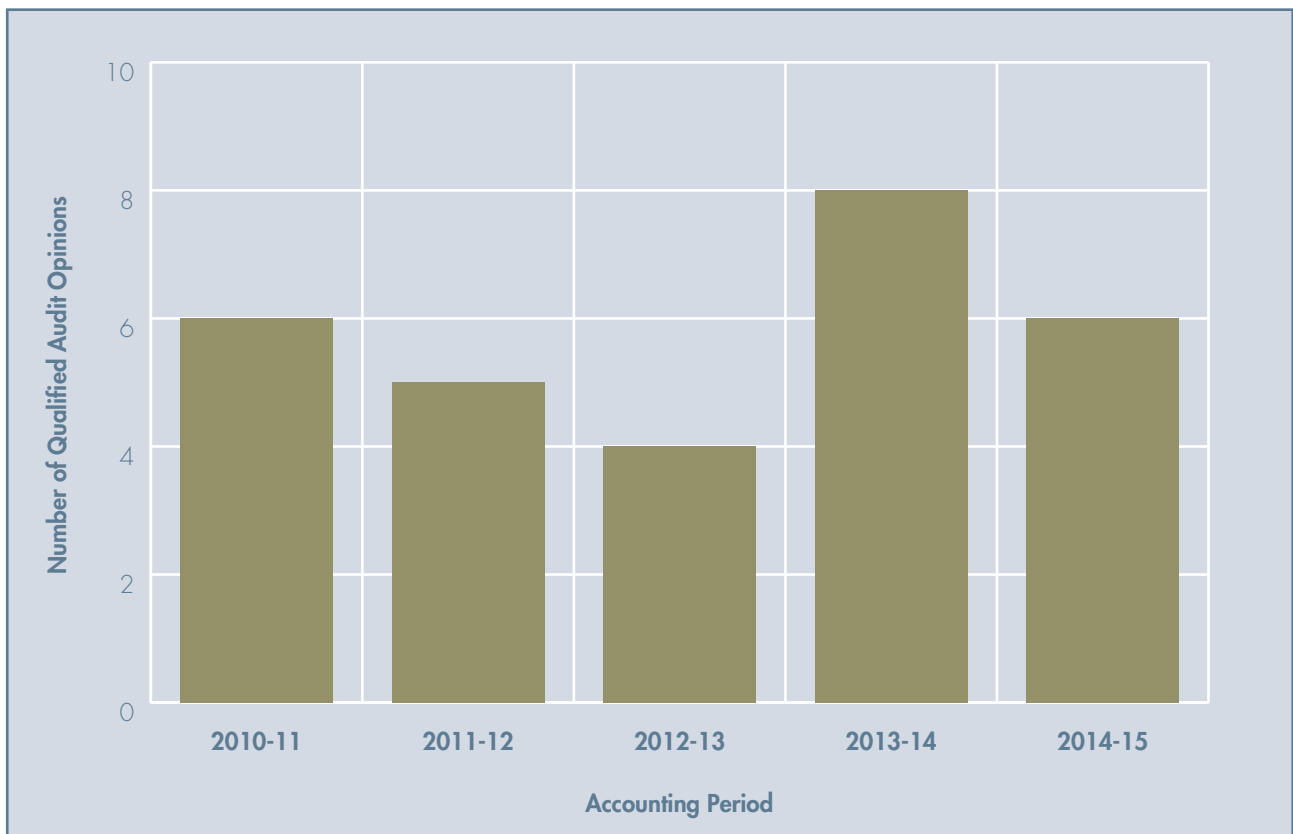
2.1 I am responsible for forming an audit opinion on 134 central government accounts. In forming an audit opinion on a set of financial statements I must assess whether expenditure is regular and in accordance with the intentions of the NI Assembly when it granted the money.

Qualified Audit Opinions – Resource Accounts

2.2 The 2014-15 accounting period saw a decline in the number of resource accounts receiving qualified audit opinions compared to the previous

year. **Figure 4** illustrates the number of resource accounts that have received a qualified audit opinion for the five year period 2010-11 to 2014-15. In the 2014-15 accounting period, six of the nineteen resource accounts received a qualified audit opinion (32 per cent compared to 42 per cent in 2013-14). The reasons for the qualifications in the 2014-15 accounting period included significant levels of benefit fraud and error; a failure by departments to obtain necessary DFP approvals; and failure to comply with EU regulations. The 2014-15 accounting period also saw two resource accounts receive a qualified audit opinion due to an excess

Figure 4: Number of Resource Accounts receiving a Qualified Audit Opinion for Accounting Periods 2010-11 to 2014-15



2 The Assembly authorises and sets limits on public expenditure in the annual Budget Acts on two bases, resources and cash. An excess vote occurs where a department’s expenditure exceeds either one or both of these authorised limits. Such an overspend is automatically deemed irregular and attracts a qualified audit opinion.

vote², compared with three in 2013-14. Further information on these can be found at Paragraphs 3.1 – 3.13.

2.3 Of the six resource accounts receiving a qualified audit opinion in the 2014-15 accounting period, three had been subject to a similar qualified audit opinion in the previous accounting period, and three received new qualified audit opinions. Five accounts which had been qualified in 2013-14 were no longer subject to qualification.

2.4 **Figure 5** contains brief details of the six resource accounts which received qualified regularity audit opinions for the 2014-15 financial year. My full reports are published separately and laid in the Northern Ireland Assembly. Within this general report I have decided to reproduce one report in full, namely that which attached to the financial statements of the Northern Ireland Housing Executive - see **Annex 1**.

Figure 5: Resource Accounts 2014-15 receiving a qualified audit opinion	
Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Department of Agriculture and Rural Development	<p>The audit opinion on the Department of Agriculture and Rural Development's (DARD) Accounts has again been qualified. During the 2014-15 financial year, DARD accrued £17.3 million which was in relation to the 2013 and 2014 scheme years in its resource account as amounts due to be paid to the EU in respect of disallowances of EU funding through the European Agricultural Funds (£10.3 million was accrued in 2013-14).</p> <p>This represents a loss to public funds which falls outside the Assembly's intentions in relation to the proper administration of EU funding. I have therefore concluded that expenditure has not been applied for the purposes intended by the Assembly and does not conform with the authorities which govern it.</p> <p>http://www.dardni.gov.uk/dard-resource-accounts-2014-15.pdf.pdf</p>
Department of Culture, Arts and Leisure	<p>The audit opinion on the Department of Culture, Arts and Leisure's (DCAL) accounts was qualified for 2014-15 in respect of irregular expenditure amounting to £6.4 million.</p> <p>The irregular expenditure arose as a result of failure by DCAL to submit Annual Business Plans for the North/South Language Bodies and Waterways Ireland to DFP in sufficient time to allow approval prior to the commencement of the financial year to which plans relate. As the business plans did not receive their required approval until 18 December 2014, there was no authority for this expenditure. I therefore concluded that the expenditure is not in conformity with the authorities which govern it and qualified my audit opinion on regularity in this respect.</p>

Section Two: Qualified Opinions and Reports on Accounts

Figure 5: Resource Accounts 2014-15 receiving a qualified audit opinion	
Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Department of Culture, Arts and Leisure	<p>I have no longer qualified my audit opinion on the truth and fairness of the financial statements in respect of the legal ownership of certain assets, which has stood since 2008-09, as I was able to obtain sufficient audit evidence concerning the completeness and valuation of these assets.</p> <p>http://www.dcalni.gov.uk/dcal-resource-accounts-14-15.pdf</p>
Department of Finance and Personnel - PCSPS (NI)	<p>The audit opinion on the Department of Finance and Personnel – Superannuation & Other Allowances Resource Account was qualified because expenditure for the PCSPS (NI) exceeded the resource expenditure limit voted. In breaching the Assembly's control total, the Pension Scheme incurred an excess on voted expenditure of £68.3 million.</p> <p>https://www.dfpni.gov.uk/publications/dfp-resource-accounts</p>
Department for Regional Development	<p>The audit opinion on the Department of Regional Development (DRD) Accounts has been qualified on regularity grounds.</p> <p>DRD's Supply Estimate was set in the expectation that £20 million of income would be secured from Belfast Harbour Commissioners in both 2013-14 and 2014-15. The anticipated income from Belfast Harbour Commissioners did not materialise. As a result DRD faced a shortfall in its funding of £20 million in both 2013-14 and in 2014-15. In 2013-14 the Executive had recognised the position and allocated £20 million additional funding to the Department through in-year monitoring, however, the Executive did not provide a similar allocation in 2014-15.</p> <p>With due regard for public health and safety, a Ministerial Direction in December 2014 to DRD's Permanent Secretary directed him to continue to provide services relating to winter service, road maintenance and essential travel and to maintain the NI Water budget at its current level. As a result DRD exceeded the expenditure limit's agreed in the Estimates on the ferry services, air and sea ports by £19.5 million. The Department of Finance and Personnel granted virement³ approval which reduced the overspend on this line to £12.9 million. There was no authority for the overspend of £12.9 million. I have therefore concluded that the expenditure has not been applied for the purposes intended by the Assembly and does not conform with the authorities which govern it.</p> <p>https://www.drdni.gov.uk/publications/drd-resource-accounts-year-ended-31-march-2015</p>

3 In certain circumstances, DFP may approve the use of underspends on one part of the estimate to cover overspends on another part of the estimate – this is referred to as virement approval

Figure 5: Resource Accounts 2014-15 receiving a qualified audit opinion

Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Department for Social Development	<p>The audit opinion has been qualified for a considerable number of years and is qualified again this year because of significant levels of fraud and error in certain benefit expenditure.</p> <p>The total expenditure on benefits by the Department for Social Development (DSD) in 2014-15 was £5.7 billion (£5.5 billion, 2013-14) and of this, DSD estimated overpayments due to fraud and error of £81.1 million (1.4 per cent of total benefits) compared to £71.9 million (1.3 per cent of total benefits) last year. In addition, underpayments due to official error increased to £25.1 million (0.4 per cent of total benefits) from £20.8 million (0.4 per cent of total benefits) last year.</p> <p>From an overall Departmental point of view the estimated levels of overpayments and underpayments due to fraud and error were 2 per cent this year. The estimated levels of customer fraud have increased significantly in the benefit payments made by the Social Security Agency, NIHE and LPS in the current year. Total fraud and error in benefit expenditure is now at its highest level since 2007.</p> <p>I also acknowledge the improvement in governance arrangements within the housing association sector generally and note that the Department has plans in place to ensure that this improvement continues. I also note that the Department (via NIHE) has in the past provided grants to housing associations to allow them to purchase land to build on, in order to provide social housing. I note two cases where grants had been paid several years ago but where social housing had not yet been built. In one of these cases, a settlement agreement has been reached with Helm Housing Association for the full amount of £8.1 million over a three year period. In the other case, an agreement was reached with OakleeTrinity Housing Association to recover the £835k grant less allowable expenses of £194k associated with costs incurred to develop the scheme.</p> <p>Both the Advance Land Purchases and the handling of a potential conflict of interest were the subject of a Public Accounts Committee evidence session held on 18 February 2015. The Public Accounts Committee issued a report on 21 October 2015 outlining a number of recommendations.</p> <p>https://www.dsdni.gov.uk/publications/dsd-resource-account-reports-2015</p>

Section Two: Qualified Opinions and Reports on Accounts

Figure 5: Resource Accounts 2014-15 receiving a qualified audit opinion

Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Northern Ireland Assembly Commission	<p>The audit opinion on the Northern Ireland Assembly Commission (NIAC) accounts was qualified because NIAC expended more resources than had been authorised by the Assembly. The excess of expended resources over authorised resources occurred due to the requirement on the NIAC to account for movements on the provision in respect of liabilities of the Assembly Members' Pension Scheme. The level of that liability can only be assessed after the Spring Supplementary Estimates have been prepared. In doing so the Northern Ireland Assembly Commission breached the Assembly's control over its expenditure and has therefore incurred an excess vote. The net resource outturn for the Northern Ireland Assembly Commission of £48.9 million was £953,000 in excess of the £47.9 million authorised by the Assembly.</p> <p>http://www.niassembly.gov.uk/about-the-assembly/corporate-information/publications/resource-accounts</p>

Qualified Audit Opinions – other accounts

2.5 Since my last General Report I have qualified the financial statements of 12 bodies' accounts. These are Arm's Length Bodies (ALBs) sponsored by central government departments. Five qualifications were in respect of the 2014-15 accounting period while the remaining seven qualifications related to previous accounting periods (for the

purpose of this report these seven are being termed as legacy). **Figure 6** illustrates the number of ALBs' accounts receiving a qualified audit opinion for the five year period 2010-11 to 2014-15.

Figure 6: Number of other accounts receiving a qualified audit opinion for Accounting Periods 2010-11 to 2014-15



2.6 **Figure 7** contains brief details of the five other accounts which received qualified audit opinions for the 2014-15 financial year.

Figure 7: Other 2014-15 accounts receiving a qualified audit opinion	
Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Child Maintenance Service Client Funds	<p>The audit opinion on the Child Maintenance Service (CMS) Client Funds accounts has been qualified for a considerable number of years and this year continues to be qualified in respect of two issues:</p> <ul style="list-style-type: none"> • The DSD is required to calculate maintenance assessments in accordance with the relevant legislation. I qualified my regularity opinion as my examination of maintenance assessments identified cases that have been calculated incorrectly. I considered the extent of estimated levels of error in maintenance assessments to be material. • There was a lack of evidence to substantiate £69 million (£78.8 million, 2013-14) of outstanding maintenance arrears. <p>https://www.dsdni.gov.uk/publications/dsd-resource-account-reports-2015</p>

Section Two: Qualified Opinions and Reports on Accounts

Figure 7: Other 2014-15 accounts receiving a qualified audit opinion

Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Northern Ireland Housing Executive	<p>The audit opinion on the regularity of financial transactions in the Northern Ireland Housing Executive's (NIHE) accounts has been qualified due to:</p> <ul style="list-style-type: none"> • significant levels of estimated fraud and error in housing benefit expenditure. Total housing benefit expenditure in 2014-15 was £671 million (£657 million in 2013-14). <p>DSD Standards Assurance Unit has estimated that overpayments of housing benefit expenditure due to fraud and error were £22.3 million (3.4%) compared to £21.1 million (3.2%) in 2013. Underpayments due to official error were estimated to be £4.4 million (0.7%) compared to £4.8 million (0.7%) in 2013. It is recognised that NIHE continues to dedicate considerable efforts and resources to address this ongoing issue.</p> <ul style="list-style-type: none"> • the lack of sufficient audit evidence on the operation of controls over the management of heating response maintenance and planned maintenance contracts: <ul style="list-style-type: none"> – The qualification in the area of general response maintenance contracts has been removed as the NIHE has now provided evidence of continuing improvement in the operation of controls. However the qualification on heating response maintenance expenditure (£3.6 million) remains until all whistleblowing allegations have been fully investigated. – For the area of planned maintenance expenditure until the NIHE has a complete programme of inspections in place that is fully embedded, covers all planned maintenance scheme contracts and is appropriately staffed it is likely that this qualification will remain. <p>Last year I qualified my financial audit opinion as I did not have sufficient evidence to conclude on the completeness and accuracy of the tax liabilities disclosed in the accounts. Since then the NIHE has paid liabilities determined by HMRC and are receiving expert advice. Consequently this year I am content that I have the necessary evidence and have not qualified my financial audit opinion. My full report can be found attached at Annex 1.</p>

Figure 7: Other 2014-15 accounts receiving a qualified audit opinion	
Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Northern Ireland Library Authority	<p>I qualified my audit opinion on the truth and fairness of the Northern Ireland Library Authority (NILA) financial statements due to the following limitations on the scope of my audit:</p> <ul style="list-style-type: none"> • NILA is satisfied beyond reasonable doubt that assets with a value of £0.6m would not meet the definition of heritage stock assets and as such they have been de-recognised as heritage stock assets. However I was unable to obtain sufficient audit evidence concerning the completeness and valuation of these heritage stock assets derecognised; and • there remains significant doubt over the accuracy and completeness of a material portion (£1.7m) of the valuation of heritage stock assets. <p>https://www.librariesni.org.uk/AboutUs/OurOrg/Pages/Annual-Report-and-Accounts.aspx</p>
Northern Ireland Social Security Agency	<p>The audit opinion on the Social Security Agency (SSA) accounts has been qualified for a considerable number of years and, whilst I acknowledge that the Agency continues to address the matters which give rise to the longstanding qualification of my audit opinion, it is qualified again this year because of material levels of fraud and error in certain benefit expenditure.</p> <p>I was disappointed to note, that despite the initiatives used by SSA to counteract fraud and error, the level of overpayments increased slightly from 0.9 to 1 per cent of benefit expenditure in 2014 against a rise in annual benefit expenditure of 3.4 per cent. The Agency continues to face a significant challenge to administer a complex benefits system to a high degree of accuracy in a cost effective way.</p> <p>The level of estimated fraud and error remains significant – out of total benefit expenditure (other than State Pension) of £2.9 billion, estimated over and under payments total £71 million. Overpayments due to fraud and error are estimated at £50.6 million (1 per cent of total benefits), compared to £45.0 million (0.9 per cent of total benefits) in the previous year. Underpayments due to official error are estimated at £20.4 million (0.4 per cent of total benefits), compared to £15.2 million (0.3 per cent of total benefits) in the previous year.</p> <p>https://www.dsdni.gov.uk/publications/social-security-agency-annual-report-and-accounts-2014-15</p>

Section Two: Qualified Opinions and Reports on Accounts

Figure 7: Other 2014-15 accounts receiving a qualified audit opinion	
Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Youth Justice Agency	<p>The audit opinion on the Youth Justice Agency (YJA) of Northern Ireland accounts was qualified in respect of a lack of clarity on whether or not, legally, the Youth Justice Agency of Northern Ireland should have been admitted to membership of the Northern Ireland Local Government Officers' Superannuation Committee Pension Scheme.</p> <p>The Youth Justice Agency of Northern Ireland paid contributions of £3.2m to NILGOSC in the year, the regularity of which is uncertain. As a result, the YJA account has received a qualified audit opinion on the regularity of this expenditure.</p> <p>I was pleased to report that since 1 April 2015 this has been regularised. All Youth Justice Agency of Northern Ireland employees are now members of the Principal Civil Service Pension Scheme Northern Ireland with contributions now being made to that scheme.</p> <p>http://www.youthjusticeagencyni.gov.uk/document_uploads/YJA_Annual_Report_&_Accounts_2014-15_(web_version).pdf</p>

2.7 **Figure 8** contains brief details of seven legacy accounts that have received qualified audit opinions.

Figure 8: Legacy Accounts – Arms Length Bodies receiving a qualified audit opinion	
Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Land & Property Services' Trust Statement – Rate Levy Accruals Account 2013-14.	<p>The audit opinion on the Land & Property Services' Trust Statement – Rate Levy Accruals Account has been qualified for a number of years and is qualified again in 2013-14 because of significant levels of fraud and error in benefit expenditure.</p> <p>Total housing benefit expenditure administered by Land & Property Services (LPS) in 2013-14 was £40.7 million. Within this, the levels of fraud and error estimated by DSD's Standards Assurance Unit amounts to £6.6 million (£1.9 million customer error overpayment, £0.7 million official error underpayment, £3.5 million official error over payment and £0.5 million customer fraud) in 2013-14.</p> <p>I also reported on the level of outstanding ratepayer debt at year end, and the amount written off in year. The ratepayer debt outstanding at 31 March 2014 was £162.1 million, compared to £168.3 million in 2012-13. The amount written off in 2013-14 was £31.6 million compared to £29.1 million in 2012-13.</p> <p>https://www.dfpni.gov.uk/publications/lps-annual-reports-and-accounts</p>

Figure 8: Legacy Accounts – Arms Length Bodies receiving a qualified audit opinion	
Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
North Eastern Education & Library Board (now part of the Education Authority) 2013-14	<p>The 2013-14 audit opinion on the North Eastern Education and Library Board (the Board) account was qualified in respect of irregular expenditure when a contractor was paid £234,380 above the limits approved for a particular project.</p> <p>In December 2013 the Board paid retention monies to its contractor in order to comply with its contractual obligations and to alleviate the possibility of a legal challenge which would have led to additional costs. However in February 2013 the Department had already advised the Board that it would not authorise any expenditure above the previously approved limits for construction and professional fees. As the December 2013 payment brought the total cost of the project above these limits and the Department did not increase them this spend is considered irregular.</p> <p>It is likely that there may be further payments relating to this project during 2014-15 which will also be irregular when they are made.</p> <p>http://www.neelb.org.uk/about/finance/annual-accounts/</p>
Northern Ireland Courts and Tribunals Service 2012-13 & 2013-14	<p>Since 2011-12, Northern Ireland Courts and Tribunals Service (NICTS) has produced a Trust Statement which shows income from fines and penalties, collection and administration costs and provisions for uncollectible amounts. I have qualified the audit opinion on each Trust Statement produced.</p> <p>In 2012-13 I placed a limitation of scope on the regularity opinion because PSNI could not provide evidence to substantiate that material fraud had not occurred with the cash collection of warrants.</p> <p>During 2013-14 the enforcement and collection of warrants was largely suspended, with warrants totaling only £100,000 executed by payment. I decided not to qualify the regularity opinion for 2013-14 for this reason. Going forward, following the recommencement of warrant enforcement, I will reconsider the implications of cash collection on the 2014-15 regularity opinion, given the inherent risks with cash collection which are difficult to eliminate completely.</p> <p>For both the 2012-13 and 2013-14 Trust Statements, I have limited the scope of the audit opinion as I am concerned that there is insufficient evidence to substantiate the completeness and accuracy of the impairment of debt and therefore the collectability of the outstanding debt in both financial years.</p> <p>Going forward, I am concerned that there is a risk fines may not be collected resulting in a significant loss to the Northern Ireland public purse. The current system of fine enforcement and collection is neither effective nor efficient and is vulnerable to fraud and error. I welcome that legislation is being drafted by the Department to enable the commencement of a new fine collection and</p>

Section Two: Qualified Opinions and Reports on Accounts

Figure 8: Legacy Accounts – Arms Length Bodies receiving a qualified audit opinion	
Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Northern Ireland Courts and Tribunals Service 2012-13 & 2013-14 <i>(continued)</i>	<p>enforcement service. The Public Accounts Committee took evidence on my report on the 2012-13 Trust Statement in October 2014 and reported its findings on 21 January 2015. I will examine how the recommendations made by the Committee are implemented.</p> <p>https://www.courtsni.gov.uk/en-GB/Publications/Accounts/Documents/p_ar_annual-report-2012-13/Annual%20Report%20and%20Resource%20Accounts%2012-13.pdf</p> <p>https://www.courtsni.gov.uk/en-GB/Publications/Accounts/Documents/p_ar_annual-report-2013-14/Annual%20Report%20and%20Resource%20Accounts%2013-14.pdf</p>
Northern Ireland Legal Services Commission 2013-14	<p>I qualified the financial statements of the Northern Ireland Legal Services Commission (NILSC) on the basis of two limitations in scope on my work.</p> <ul style="list-style-type: none"> • There was insufficient evidence to support the eligibility of certain Legal Aid applications and payments to legal practitioners. Legal Aid costs in 2013-14 were made up of bills received from practitioners and charges or credits from provisions to give a total expenditure of £102.4m (Civil £56.5m and Criminal £45.9m). <p>Given the weaknesses that remain in the counter fraud arrangements for the eligibility of applicants and payments to practitioners, I have limited the scope of my audit opinion on regularity because I have been unable to obtain sufficient audit evidence to enable me to conclude that payments to legal professionals are regular.</p> <ul style="list-style-type: none"> • NILSC estimates outstanding liabilities for services provided by legal practitioners to Legal Aid claimants at each financial year end. The provisions methodology for non-high cost cases and criminal high cost cases remained the same as that applied in previous years. As a result, there remains insufficient audit evidence to support the assumptions used and to provide assurance that material misstatement does not exist. <p>I limited the scope of my audit opinion on regularity because I was unable to obtain sufficient audit evidence to enable me to conclude that material misstatement does not exist.</p> <p>https://www.dojni.gov.uk/publications/legal-services-agency-northern-ireland-annual-reports-and-accounts</p>

Figure 8: Legacy Accounts – Arms Length Bodies receiving a qualified audit opinion	
Public Body	Nature of the Qualified Audit Opinion & C&AG's Report
Northern Ireland Library Authority 2013-14	<p>I qualified my audit opinion on the truth and fairness of the Northern Ireland Library Authority (NILA) financial statements due to the following limitations on the scope of my audit:</p> <ul style="list-style-type: none"> • NILA is satisfied beyond reasonable doubt that assets with a value of £3.7m would not meet the definition of heritage stock assets and as such they have been de-recognised as heritage stock assets. However I was unable to obtain sufficient audit evidence concerning the completeness and valuation of these heritage stock assets de-recognised; and • there remains significant doubt over the accuracy and completeness of a material portion (£4.9m) of the valuation of heritage stock assets. <p>https://www.librariesni.org.uk/AboutUs/OurOrg/Pages/Annual-Report-and-Accounts.aspx</p>
Northern Ireland Social Fund 2013-14	<p>The audit opinion on the Northern Ireland Social Fund (NISF) accounts was qualified from 2006-07 until 2011-12, because of significant levels of error in Social Fund benefit expenditure (except for Winter Fuel and Cold Weather payments). In 2012-13, the estimated levels of error fell significantly and I did not qualify my audit opinion. In 2013-14, however, the estimated levels of error have increased significantly and I have re-instated my audit qualification as the levels of error are now again material to the account.</p> <p>The levels of estimated error are significant – out of total expenditure (other than Winter Fuel and Cold Weather payments) of £86.5 million, estimated over and under payments total £2.0 million (2.3 per cent), compared to £0.72 million (0.82 per cent) in 2012-13.</p> <ul style="list-style-type: none"> • Overpayments due to official error are estimated at £1.2 million (1.4 per cent of total expenditure (other than Winter Fuel and Cold Weather payments)) compared to £0.7 million (0.8 per cent) in 2012-13. • Underpayments due to official error of £0.8 million (0.9 per cent of total expenditure (other than Winter Fuel and Cold Weather payments)) compared to £0.02 million (0.02 per cent) in 2012-13. <p>https://www.dsdni.gov.uk/publications/annual-report-social-fund-2013-2014</p>

Section Two: Qualified Opinions and Reports on Accounts

Outstanding Accounts

- 2.8 In my 2014 General Report, published in December 2014, I noted that there were six accounts which should have been covered by the scope of that Report but at that point in time they had not been certified. I am pleased to report that the number of outstanding accounts at the date of this report has reduced from six to three.

Conclusion

- 2.9 Most central government departments and their ALBs have continued to produce good quality accounts for audit scrutiny, resulting in unqualified audit opinions. I audited 134 central government accounts in the year under review. This Report records the qualification of 18 accounts for which adequate audit evidence was not available to enable me to express an unqualified audit opinion or which led to a public interest report being attached to the accounts. Qualifications are usually indicative of weaknesses in internal control and compromise entities' ability to provide sound accountability to the Northern Ireland Assembly. Generally the type and nature of the qualifications arising are broadly consistent with previous years, such as irregular expenditure. I have commented further on two of the qualifications which represented excess votes, at paragraph 3.1.
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Section Three:
General Matters



Section Three: General Matters

Excess Votes

Background

- 3.1 Departments plan their resource and cash requirements so that they do not exceed the limits approved by the Assembly. If one or both of these limits are exceeded, an excess vote occurs and I qualify my opinion on the accounts and report on the circumstances giving rise to it. I also bring the matter to the attention of the Public Accounts Committee which must decide whether to recommend that the Assembly approves further grant to the department involved to regularise the overspend.
- 3.2 In 2014-15 there were two Resource excesses totalling £69.28 million. I have detailed below the impact of the Excess Vote in each of these cases and the remedial action being proposed to ensure there is no recurrence.

Department of Finance and Personnel – Principal Civil Service Pension Scheme (Northern Ireland)

- 3.3 The Principal Civil Service Pension Scheme (Northern Ireland) (PCSPS(NI) or the 'Scheme') is administered by DFP's Civil Service Pensions Branch.
- 3.4 In 2014-15 the PCSPS (NI) exceeded its estimated net resource limit resulting in an excess vote of £68.3 million⁴ against the approved resource expenditure limit.

3.5 DFP told me the variance arose from a misunderstanding between the Department and the Government Actuary's Department (the scheme actuary), which resulted in the interest cost being calculated using a rate of 3.55% instead of 4.35% resulting in a £79 million underestimate. This amount was partly offset by actual current service costs being £10 million lower than estimated costs.

3.6 DFP has arranged with the scheme actuary that in future any actuarial calculations, including the financing interest cost, required for the preparation of the Spring Supplementary Estimates, will be reviewed by the actuary before the Estimate is finalised.

Northern Ireland Assembly Commission

3.7 The Northern Ireland Assembly Commission is responsible for supporting Members of the Northern Ireland Assembly (the Assembly) in discharging their duties in their constituencies, in the Assembly and elsewhere and in enhancing public awareness of, and involvement in, the working of the Assembly.

3.8 In 2014-15 the Northern Ireland Assembly Commission exceeded its estimated net resource limit, resulting in an excess vote of £953,000⁵ against the approved resource expenditure limit.

4 <https://www.dfpni.gov.uk/publications/dfp-resource-accounts>

5 <http://www.niassembly.gov.uk/about-the-assembly/corporate-information/publications/resource-accounts>

3.9 The breach arose as there was insufficient cover for the increase in pension provision for Assembly Members. The unexpected increase was due to significant changes in the principal financial assumptions adopted by the Government Actuary Department for the assessment of the pension liability.

3.10 The Northern Ireland Assembly Commission plans to liaise with DFP to review whether the present mechanisms for obtaining Assembly approval for this expenditure adequately reflect the wholly unpredictable nature of the final outturn. The Commission will also investigate the circumstances whereby responsibility for the inclusion of this provision within its financial statements rests with the Commission.

3.11 DFP and the Northern Ireland Assembly Commission have told me that they will seek approval, by way of an excess vote from the Assembly, in the next Budget Act.

Conclusion

3.12 These excess votes arose as a result of misunderstandings and changes in calculations of pension liabilities. Both bodies are reviewing their processes in order to prevent a recurrence.

3.13 Departments should strive to enhance their forecasting techniques for cash and resource requirements. The pressures on public sector budgets in the current economic climate have significantly

reduced budget flexibility, reducing public bodies' ability to respond to unforeseen pressures. As the economic climate is unlikely to improve in the short term, public bodies should ensure that their financial forecasting techniques are underpinned by robust, informed estimates, complemented by a meaningful and challenging budgetary control process.

Emphasis of Matter

3.14 Paragraphs are added to audit certificates to refer to a matter that is appropriately presented or disclosed in the financial statements but that, in my judgment, is of such importance that it is fundamental to users' understanding of the financial statements. These paragraphs highlight an issue to the reader of financial statements but are not a qualification of the account. These are called "emphasis of matter" paragraphs.

3.15 In the past year I included eight emphasis of matter paragraphs to the audit certificates of public bodies accounts. The following paragraphs refer to the paragraphs that attached to the audit certificates of Department of Enterprise, Trade and Investment and Police Rehabilitation and Retraining Trust.

Department of Enterprise, Trade and Investment

3.16 The Department of Enterprise, Trade and Investment plays a crucial role in

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formulating and delivering economic development policy in terms of Enterprise, Social Economy, Innovation, Energy, Telecoms, and Tourism in Northern Ireland. Its goal is to grow a dynamic, innovative economy. The DETI 2014-15 account had two emphasis of matter paragraphs:

- **Material Uncertainty on Provisions** - I drew attention to the existence of a considerable number of uncertainties over the adequacy or excessiveness of provisions at 31 March 2015 of £66.04 million, of which £65.96 million is largely in relation to anticipated asbestosis related illness claims. The ultimate outcome of the matter could not be accurately determined.
- **Carrying Value of Financial Asset Investment** - I drew attention to financial projections supporting the retention of the full carrying amount of an outstanding loan. The account advises that the Department retains flexibility to manage the loan payment profile to ensure full repayment, taking into consideration potential movements in the property market, including the option to extend the repayment terms of the loan beyond the original ten year period.

Police Rehabilitation and Retraining Trust

3.17 The Police Rehabilitation and Retraining Trust (PRRT) was a private company limited by guarantee, funded by the Department of Justice. From 1 April 2015 it became a non-profit making arm's length body of the Department of Justice (NDPB). PRRT is independent of the Police Service of NI and is staffed by healthcare professionals in the fields of psychology and physiotherapy, professionally trained careers and personal development coaches who devise careers and training plans and provide support services to thousands of retired and retiring police officers. PRRT also delivers a wide range of training. The services are supported by administrative, maintenance, IT and security staff. The PRRT 2014-15 account had an emphasis of matter paragraph added to its audit certificate:

- **Going Concern** - I considered the adequacy of the disclosure made in the financial statements concerning the preparation of the financial statements on a basis other than going concern. The legal status of PRRT changed on 1 April 2015 from that of a company limited by guarantee to a body corporate. Details of the circumstances relating to this are described within the financial statements.

Good Practice Guides

Whistleblowing in the Public Sector

3.18 Over the course of the last year NIAO has produced three good practice guides: *Whistleblowing in the Public Sector: A Good Practice Guide*; *Conflicts of Interest: A Good Practice Guide*; and *Managing Fraud Risk in a Changing Environment*. Good Practice Guides are a means of providing public bodies with practical advice, guidance, ethics and/or ideas that represent the most efficient or prudent course of action for a body to adopt, to help it achieve best practice in a particular area.

3.19 *Whistleblowing in the Public Sector: A Good Practice Guide* was issued jointly by the four supreme audit agencies of the UK, including the NIAO, in November 2014. The Guide highlighted that there had been a number of significant developments in relation to whistleblowing, not least a report by the Westminster Public Accounts Committee (PAC) in July 2014 which said:

"Whistleblowing is an important source of intelligence to help government identify wrongdoing and risks to public service delivery.....However, far too often, whistleblowers have been shockingly treated."

3.20 The whistleblowing charity Public Concern at Work (PCaW) reported that calls to its advice line from the public sector had increased by 41 per cent in

a year. In response to the PAC Report, PCaW said:

"This report demonstrates that a sea change in attitude towards whistleblowers is needed from the front line to the boardroom. Central government should see this as an opportunity to lead by example and change the experience of many whistleblowers."

3.21 The Good Practice Guide emphasised that workers are the most valuable resource in any organisation, not just because of what they do, but also because they have a unique perspective on frontline services. The Guide stated it is essential that employers tap into this rich vein of intelligence and welcome workers who are courageous enough to speak out.

3.22 A key message in the Guide is the need for a culture change in public sector organisations, from the top down. The audit agencies state:

"Whistleblowing needs to be encouraged by employers as 'the right thing to do'. It is clear that there needs to be a cultural change throughout the public sector and a very clear message must come from the top of every organisation that senior management supports workers who raise genuine concerns and that all such concerns raised will be taken seriously and investigated appropriately."

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3.23 The audit agencies said they had each experienced cases where concerns had been brought directly to them because the worker did not know how to raise concerns internally, did not have faith in internal arrangements, or had suffered as a result of raising concerns. They say:

“This situation has to change. There needs to be an open and honest culture throughout the public sector, where workers have clear information on how to raise concerns (both internally and externally) and are encouraged to do so in the knowledge that they will be listened to and treated with respect, without fear of reprisal.”

Conflicts of Interest

3.24 *Conflicts of Interest: A Good Practice Guide* was published in March 2015 and is aimed at helping public sector bodies identify and manage conflicts of interest. The Guide provides clear and simple advice for staff drafting and implementing conflict of interest policies. It is also aimed at helping Board members and staff in key positions to recognise when they have a conflict of interest and how they should act when such a situation arises. One of the Guide’s key messages is that a perception of a conflict of interest can be just as significant as an actual conflict of interest.

3.25 The Guide aims to promote high standards in public life, in particular the key characteristics of propriety as defined in the ‘Seven Principles of Public

Life’ known as the Nolan Principles: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership.

3.26 The Guide includes case studies of different types of conflicts of interest. Examples include cases where officials or board members:

- use their position for direct financial gains for themselves, a relative or a close friend;
- take part in decisions that could lead to the appointment of a friend or relative;
- are involved in the award of a contract or grant where the applicant is connected to the individual;
- carry out business, on behalf of the public sector organisation, with their own or a relative’s company;
- own shares or work for another business that has dealings with the public body; and
- accept offers of gifts, hospitality or other benefits from actual or potential contractors or suppliers.

3.27 The Guide sets out a range of strategies for managing conflicts of interest and the circumstances where particular strategies are most suitable and least suitable. For the most serious conflicts, public officials and board members may either have to relinquish the private interest that is

creating the conflict or resign from their position in the public sector organisation.

Managing Fraud Risk in a Changing Environment

- 3.28 In November 2015 NIAO published a good practice guide, *Managing Fraud Risk in a Changing Environment*. Organisational change is an essential feature of the public sector as it seeks to improve and become more efficient. Nevertheless, it is a widely accepted principle that the risk of fraud escalates in periods of significant change. The Northern Ireland public sector is currently in the middle of a period of unprecedented change on a number of fronts:
- From 1 April 2015, the number of local councils reduced from 26 to 11 under local government reform;
 - From 1 April 2015, a single Education Authority replaced the five education and library boards and the Staff Commission for Education and Library Boards;
 - During 2016, the number of Northern Ireland government departments is planned to reduce from 12 to 9, with significant reallocation of responsibilities. This has been described as the most extensive reorganisation of departments since 1999, with changes being made within a "pressing timescale";⁶

- Continuing budgetary pressures have led to significant staff reductions across the public sector, achieved mainly through a voluntary exit scheme. The Finance Minister has described the scope and speed of the exit scheme as unprecedented in the history of the civil service; and
- Budgetary pressures mean there is an on-going need to achieve efficiencies in service delivery.

3.29 As new public sector organisations are created, or formed through a process of merger, a number of key fraud risks may emerge, for example:

- roles and responsibilities may be unclear or inadequately defined;
- governance arrangements may not operate effectively;
- staff reductions may lead to weakened control systems due to inadequate segregation of duties;
- staff losses on a significant scale may mean that key skills are lost; and
- supervisory checks may be overlooked.

3.30 The Guide highlights the reasons why fraud can occur, the key risks that may emerge in times of significant change and the policies, procedures and controls that should be in place to address those risks. It draws on documents already in the public domain

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and uses the key principles from those documents to reinforce the need for increased fraud awareness in this dramatically changing environment. It also includes detailed self-assessment checklists, to help organisations measure how well they are preventing, detecting and responding to fraud.

NI Events Company

3.31 In 1995, the Northern Ireland Office engaged consultants to research and report on the organisation of major events in Northern Ireland. The report concluded that a separate events organisation, sponsored and funded by a government department, should be formed. In order to attract private sector investment, the report considered it important that the organisation was perceived as independent from government. As a result, the Northern Ireland Events Company (NIEC) was incorporated as a limited liability company to support international standard events in Northern Ireland. Its main source of funding was an annual budget provided by the Department of the Environment (DoE) from 1997 to 1999 and the Department of Culture, Arts and Leisure (DCAL) from 1999 onwards.

3.32 On 29 September 2015 I issued a report on the NIEC. In my opinion the standard of leadership provided within the NIEC fell well short of what is expected in the public sector. This included covering up a complete

breakdown of financial control within the company, including the accumulation of a £1.5 million deficit, and conflicts of interest. I am unaware of any other instance in the Northern Ireland public sector where corporate governance has failed so comprehensively to uphold the Nolan principles of conduct in public life. A copy of my report can be found at http://www.niauditoffice.gov.uk/niec_full_report.pdf.

3.33 The Public Accounts Committee took evidence on my report on 7 and 21 October 2015 and will issue a report on its findings in due course.

3.34 The Company was included in the Companies (Public Sector Audit) Order (Northern Ireland) 2008, which came into effect from 1 July 2008. This Order lists those public sector companies subject to audit by the Comptroller and Auditor General under Article 5(3) of the Audit and Accountability (Northern Ireland) Order 2003. I expect to conclude soon on the audits of the financial statements for 2008-09; 2009-10; 2010-11; 2011-12; 2012-13; 2013-14 and 2014-15 following the completion of the investigation by the Company Inspectors. The functions of NIEC transferred to the NI Tourist Board on 1 April 2010. I will continue to have responsibility for auditing the financial statements until NIEC has been wound up.

Annex



Annex 1:

Northern Ireland Housing Executive

Introduction

1. The Northern Ireland Housing Executive (the Housing Executive) is comprised of a Public Corporation and an NDPB⁷ and is sponsored by the Department for Social Development (the Department). The Housing Executive is the regional housing authority for Northern Ireland with a wide range of housing responsibilities including acting as landlord for housing stock of approximately 88,500 dwellings.
2. I am required to report my opinion as to whether the financial statements give a true and fair view. I am also required to report my opinion on regularity, that is, whether in all material respects the expenditure and income have been applied for the purposes intended by the Northern Ireland Assembly (the Assembly) and the financial transactions conform to the authorities which govern them.

maintenance expenditure; and £99 million on planned maintenance expenditure. Considerable problems have been identified in the past in relation to the Housing Executive's controls over work done by contractors on its response and planned maintenance programme and I have qualified my regularity audit opinion in this area for a number of years. The Housing Executive has provided me with evidence of continuous improvement in the operation of controls over general response maintenance this year and therefore I have removed my qualification in this area. However the qualification on heating response maintenance expenditure (£3.6 million) remains as I continue to have some concerns. In the area of planned maintenance expenditure I have not been provided with sufficient evidence over the controls operating in this area and therefore I have again qualified my regularity audit opinion.

Explanation for Qualified Audit Opinions

3. This report reviews the results of my 2014-15 audit of the Housing Executive and sets out the reasons why I consider I do not have enough evidence to provide an unqualified regularity audit opinion.

Response and Planned maintenance expenditure (Part 1)

4. The Housing Executive spent a total of £145 million on maintenance during 2014-15; £46 million on response

Fraud and error in housing benefit expenditure (Part 2)

5. The Housing Executive spent £671 million on housing benefit in 2014-15. Significant levels of estimated fraud and error in housing benefit expenditure continue, £26.7 million for 2014-15. I have therefore qualified my audit opinion on regularity due to the material level of this fraud and error. The Housing Executive's accounts have received a similar qualified audit opinion in previous years.

⁷ From 1 April 2014, following a review by the Office for National Statistics, the financial accounting classification of the Housing Executive changed. The Housing Executive now comprises two accounting classification units. Landlord Services and functions have been re-classified as a quasi-Public Corporation (which is similar to the previous designation for the entire organisation) while Regional Services and functions are now categorised as a Non-Departmental Public Body. The main impact of the accounting reclassification is that the NDPB will, for accounting purposes, be more closely integrated with the sponsor department and budgetary management arrangements are now aligned to those already in place for the Department.

Update on previous corporation tax qualification

6. Last year I qualified my financial audit opinion as I did not have sufficient evidence to conclude on the completeness and accuracy of the tax liabilities disclosed in the accounts. Since then the Housing Executive has paid liabilities determined by HMRC and are receiving expert advice. Consequently this year I am content that I have the necessary evidence and have not qualified my opinion.

the Housing Executive spent £46 million in this area compared to £41 million in 2013-14.

Part 1: Response and Planned Maintenance Expenditure

Qualified opinion due to weaknesses in the controls over expenditure on heating response maintenance and planned maintenance

Response Maintenance

Key Points:

- Evidence of improvements in inspection results this year
- Previous qualified audit opinion on general response maintenance removed
- Qualified audit opinion remains on heating response maintenance due to insufficient evidence

7. Response maintenance expenditure relates to the day-to-day repairs and maintenance that has to be carried out on housing stock in response to a specific need, usually initiated by a tenant. In 2014-15

General response maintenance inspection results

8. Due to the technical nature of maintenance work, I rely on the Housing Executive's internal controls to ensure that work done by their contractors is properly inspected by maintenance staff and payments are not made until work has been satisfactorily completed. One of the key controls in ensuring that proper inspections are taking place is the Audit and Assurance Department (AAD)⁸ which provides independent assurance to the Housing Executive management and also the Accounting Officer on the effectiveness of the key controls in operation over maintenance functions. To do this it statistically selects samples of maintenance contracts inspected and reperforms the checks that have already been carried out in each office.
9. Since 2013-14 the AAD report the results of their inspections on an area basis⁹ although the local offices are also assigned an individual rating. Scores are recorded against specific criteria and classified as unacceptable, limited, satisfactory or substantial.
10. The results of the work of the AAD in 2014-15 and earlier years are summarised in Figure 1. I note this year that the AAD

8 In June 2014 the Audit and Assurance Department was formed following the merger of the Housing Executive's Corporate Assurance Unit and its Internal Audit Unit.

9 During 2012-13 the Housing Executive merged their previous area offices to create three new regions covering 12 new areas and retained 32 local offices.

Annex 1: Northern Ireland Housing Executive

continues to report an improved performance in the delivery and management of these contracts at both an area and office level. To date 28 local offices (out of 32) have been visited within 10 of the areas.¹⁰ Two of these offices, Waterside and North

Belfast 6 were classified as having limited and unacceptable results respectively which compares to eight local offices per earlier inspection results. AAD policy is to provide a support programme to help address areas of weakness once identified.

Figure 1: Results of the AAD response maintenance inspections

Classification	2014-15	2010-14 ¹¹	2014-15	2010-14 ¹¹
	By Area		By local office	
Substantial	9	4	23	8
Satisfactory	1	3	3	12
Limited	-	3	1	2
Unacceptable	-	-	1	6
Total	10	10	28	28

Source: Housing Executive

Approach used for response maintenance inspections and reporting

11. I have reviewed a sample of the work done by the AAD and I am satisfied that the work I examined was properly carried out in line with their procedures and methodology. Last year I was concerned that the results of a due diligence exercise into the planned maintenance scheme inspections (discussed further in paragraph 23) may have implications for the work completed in the area of response maintenance. The Head of the AAD has since concluded this exercise and informed my staff that there is no impact on the approach taken for response maintenance inspections or reporting.
12. The AAD inspections continue to demonstrate an improving performance and there have been no changes to the current approach used in these inspections. I welcome the considerable progress made by the Housing Executive in addressing the weaknesses in control that have affected the area of general response maintenance over the past few years.

Heating response maintenance inspection results

13. The Housing Executive spent £3.6 million this year responding to heating maintenance issues and servicing both

¹⁰ At the time of my audit the remaining area reports were not yet at draft stage.

¹¹ AAD has provided these comparative results by applying the new methodology to previous inspection results. These inspections were carried out during 2010-11, 2011-12, 2012-13 and 2013-14.

appliances and installations. In October 2010 the Department recommended that the Housing Executive should also gain assurance over inspections of both planned and response maintenance heating contracts. The AAD now have the necessary technical expertise to perform these inspections and since 2013-14 have incorporated them into their annual programme of work. The AAD inspections focus on the work done by the area to ensure that the contractor's work meets standards and payments to the contractor are appropriate.

14. At the time of this report eight of the 12 areas have been issued with reports with seven of them receiving a satisfactory classification and one, South Down area, receiving an overall limited classification. As this is the first full year of these heating inspections there are no previous reports to provide comparisons. Due to the way in which these contracts have been awarded individual offices have not been assigned separate classifications unless there is more than one contractor working in an area¹².
15. It is encouraging that the AAD now has the necessary technical resources to complete its programme of inspections, for which, results have largely been favourable. However over the past six months a number of whistleblowers have come forward with allegations in respect of the management of both response and planned heating maintenance contracts. Until these allegations have been fully investigated I continue to have concerns

over the controls operating in heating maintenance. I am also concerned about the delay in investigating these issues and asked the Housing Executive to comment on its progress. It told me that there were six separate whistleblowing referrals made with regard to heating maintenance issues, including a complaint from a contractor. It accepts that progress in completing the investigations has been slower than expected. Given the complexity and overlapping nature of the allegations when taken together the Housing Executive has decided to examine the cases in a holistic manner through a multi-disciplinary group chaired by the Director of Finance. The group will examine quality and pricing issues and will be supported by the use of data analytic technology to verify technical performance trends. Going forward, this technology will be rolled out to response maintenance to allow them to apply a more targeted approach to maintenance issues.

Conclusion on response maintenance expenditure

16. I am content that there has been considerable progress in the Housing Executive's management of general response maintenance contracts and have therefore decided to remove my audit qualification in this area this year. While I note that heating maintenance schemes are now subject to a full programme of

¹² This is the case in South Down, with one contractor's work receiving a satisfactory classification and the other a limited classification. Overall the result of this inspection was classified as limited.

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inspections that have largely resulted in satisfactory assurance, I am unable to remove my qualification on this aspect of response maintenance expenditure until all whistleblowing allegations have been thoroughly investigated by the Housing Executive. Therefore, I have qualified my regularity audit opinion on £3.6 million of heating response maintenance expenditure.

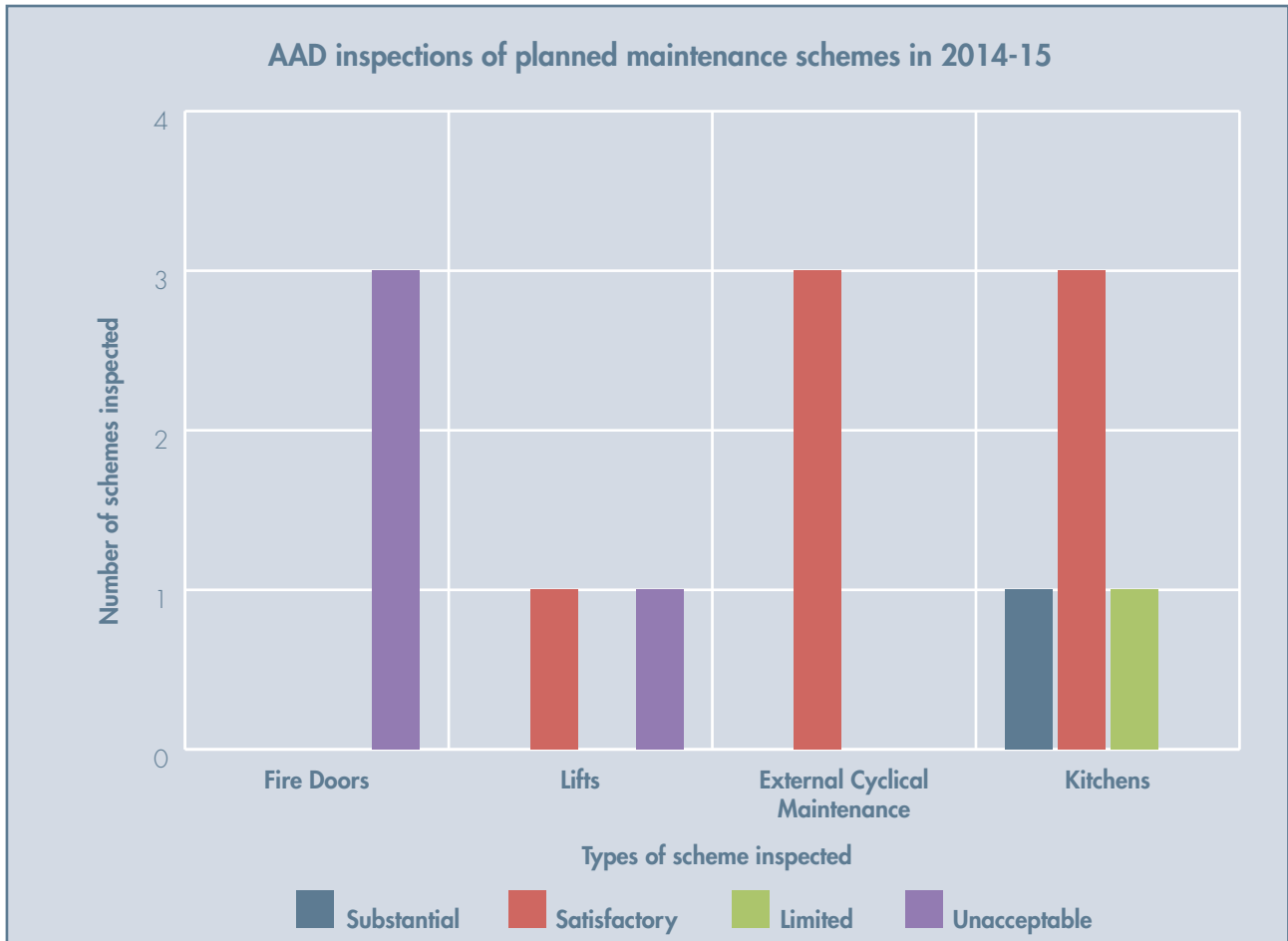
Planned Maintenance

Key Points:

- Thirteen schemes inspected this year and four have been classified as unacceptable
- Six planned heating schemes have been inspected and five have been classified as satisfactory
- New planned maintenance contract schemes have not yet been inspected by the AAD
- Qualified audit opinion remains due to insufficient evidence

17. Planned maintenance expenditure relates to larger schemes of maintenance scheduled to maintain the housing stock over time and includes work such as painting (included within external cyclical maintenance), boiler replacement, kitchen replacement and double glazing. During 2014-15 the Housing Executive spent £99 million on such schemes compared to £86 million in 2013-14.
18. As is the case for response maintenance expenditure the AAD also inspects the Housing Executive's management of its planned maintenance contracts by inspecting the final completed scheme on site to ensure it is in line with policy, meets the necessary standards and is in line with what should have been delivered. The results of these inspections for 2014-15 are set out in Figure 2.

Figure 2: Results of planned maintenance scheme inspections 2014-15



Source: Housing Executive

Planned maintenance schemes inspection results

19. Figure 2 shows that there were 13 inspections this year covering four different types of schemes. Five of these schemes received limited or unacceptable classifications, three of which were for fire doors. These results are particularly concerning, given the health and safety implications and I urge the Housing Executive to address these issues promptly. The Housing Executive told me that an action plan has already been put in place

to deal with the issues identified through its inspection arrangements and it is working closely with its contractors to ensure a prompt resolution of any matters raised.

20. Figure 3 compares these results to last year's results although it is recognised that comparisons are not as meaningful for these types of inspections as different schemes are selected every year. Last year 14 per cent of schemes were classified as limited/unacceptable (kitchens and

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window replacement schemes) compared to approximately 39 per cent this year. It should be noted that the number of scheme inspections has decreased from 21 last year to 13 this year.

Figure 3: Comparison of 2014-15 and 2013-14 planned maintenance scheme inspection results

Inspection classification	2014-15		2013-14	
	No	%	No	%
Substantial	1	7.5	16	76
Satisfactory	7	54	2	10
Limited	1	7.5	1	4
Unacceptable	4	31	2	10
Total	13		21	

Source: Housing Executive

Need for a Quantity Surveyor to provide financial assurance

21. The AAD needs Quantity Surveyor (QS) input to ascertain whether maintenance officers carrying out inspections are ensuring that contractors are only being paid for work that has been properly completed. However due to staff turnover during the year input to inspections has been limited. Without full QS input to its inspections the AADs' reports cannot, in my opinion, provide a complete picture. I understand that this is due to recruitment difficulties and, as noted in my report last year, I consider that the Housing Executive must address this gap as a matter of urgency. The Housing Executive has informed me that a Quantity Surveyor was

engaged through its agency partner in early May 2015.

Concerns regarding the approach used for planned maintenance scheme inspections and reporting

22. As with the AAD's work on response maintenance I reviewed a sample of their work on planned maintenance and was satisfied that it follows their procedures and methodology. Last year I reported that following concerns raised by a whistleblower the Housing Executive had set up a team to review schemes in South Region. I asked for an update on this investigation and the Housing Executive told me that following an initial discussion with the whistleblower, a team of experienced investigators was assigned to examine the concerns raised by this person and quickly established that there was initial evidence to support some of these concerns. This led to a more extensive investigation supported by technically qualified staff not previously associated with the planned maintenance work being examined. During the course of the investigation several other whistleblowers came forward with similar concerns. Furthermore, the Housing Executive informed me that the scope of the investigation was thorough and extensive, confirming there had been unacceptable management of some of the schemes and failure to apply the required controls and procedures. As a result of the investigation, an agency member of staff was not retained and a permanent

employee was dismissed. The latter case is now the subject of an Industrial Tribunal hearing. A number of other officers are still subject to disciplinary investigation.

23. This investigation led to the Accounting Officer initiating a due diligence exercise to look at the appropriateness of the methodology and reporting of planned maintenance scheme inspection results during 2013-14 as the South Region had previously received a satisfactory classification. This work has now concluded and identified significant weaknesses in the methodology and reporting of these results. For example the methodology allowed for schemes with a failure rate of up to 25 per cent to be given a substantial classification. As this approach was also adopted in the 2014-15 scheme inspections the Head of the AAD has reviewed the classifications assigned to each scheme and in light of these weaknesses revised them where necessary. This has resulted in six of the schemes inspection results being revised downwards from substantial to satisfactory classifications. The Head of the AAD is in the process of devising a new methodology for 2015-16 onwards. Given the fact that the previous approach had also been subject to considerable review and 'road-tested', this new methodology must be robustly tested before it is introduced. The Housing Executive told me that, once approved, the methodology will then be reviewed by an external maintenance specialist to ensure it is robust and reflects best practice. The external specialist will also have involvement in accessing the

results of the 'road-testing' experience, for completeness of assurance.

New planned maintenance contracts

24. Following the expiry of the old planned maintenance scheme contracts, various issues including the resolution of potential overpayments which I reported last year led to the new contracts not starting until August 2014.¹³
25. The Head of the AAD has advised my staff that inspections of the new planned maintenance schemes have not taken place as they do not inspect schemes until they are nearing completion and the new approach for 2015-16 has not yet been finalised. I understand that in these new consultant-led contracts the contractor's work is fully checked by the consultant. The Housing Executive told me that management checks on the work of the consultants have been in place since the commencement of the contracts. These checks are applied to each scheme on a sample basis of 10 per cent as dwellings are handed over. The Housing Executive re-examines the quality and cost of the work which the consultants have approved. Key Performance Indicators are in place to provide robust management of the consultants. To date, the performance of some consultants has not been consistent and the Housing Executive informs me it has taken positive action to ensure performance is both reliable and effective. This includes agreed improvement plans and, if required, escalation.

¹³ The only exception to this is double glazing which was separated from the main contracts, tendered separately and awarded in November 2013.

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Planned heating maintenance inspection results

26. The Housing Executive spent £39 million (39 per cent of total planned maintenance expenditure) during 2014-15 on planned heating maintenance. This year six heating installations have been inspected with five schemes receiving a satisfactory classification and one an unacceptable classification. In the latter case, this classification arose due to a number of issues including construction works and finishing not being a satisfactory standard, reuse of existing material by the contractor and the oil tank base not being removed in line with a tenant's request but included on the contractor's invoice. I note that this inspection report was still in draft, a year since it was issued. This delay has arisen due to a further review being completed by the AAD staff, independent of those involved in the initial review, following challenge by management in the area. I have previously reported on the level of challenge by the Housing Executive management to the former Corporate Assurance Unit findings and am concerned to see this happening again. The Housing Executive told me that it accepts there was a considerable delay in completing this report which has now been issued as final.
27. As in the case for planned maintenance schemes there has been very limited QS input to these inspections. The Housing Executive has told me that heating contract services are provided on a specific composite cost basis whereby each service is allocated an agreed upfront cost which limits the potential for final cost variations. Therefore there is less of a risk

of overpayment or cost variations occurring as compared to the more complex non-heating planned maintenance schemes. Due to the weaknesses identified in the methodology used the Head of AAD has reviewed the assigned classifications and revised two of them to satisfactory from substantial. As noted earlier (paragraph 15) a number of whistleblowers have come forward in this area and allegations have not yet been fully investigated.

Conclusion on planned maintenance expenditure

28. The AAD has provided independent assurance over a number of planned maintenance schemes that relate to the old contracts. While Housing Executive management has advised me that it has completed inspections of a percentage of the consultants' work, to date no independent assurance is available for the work done by the consultants or contractors on the new contracts. This is exacerbated by the fact that the AAD inspections continue to have limited QS input which means that the financial aspects of the schemes cannot be fully examined. This reduces the extent to which I can rely on their work.
29. The results of planned heating maintenance schemes are mainly positive however the fact remains that a number of whistleblowing investigations are yet to be resolved.
30. Until the Housing Executive has a full programme of inspections in place that is fully embedded, covers all planned

maintenance scheme contracts and is appropriately staffed it is likely that this qualification will remain. In the current year I was unable to obtain sufficient evidence that the Housing Executive's control of this expenditure was adequate for the purposes of ensuring that these payments had been applied for the purposes intended by the Assembly. I have therefore qualified my regularity audit opinion again on planned maintenance expenditure of £99 million this year.

Update on contractor overpayments in planned maintenance schemes

31. In my report on the accounts last year I provided considerable detail on the events leading to the estimated contractor overpayments of £18 million and the final agreed settlement. Further investigation of the whistleblower allegations (paragraph 22) has highlighted that some scheme expenditure in the South Region, which had been excluded from negotiations, was not measured properly. This has resulted in further protracted contractor negotiations which are now nearing resolution. I asked the Housing Executive if it was content that all remaining schemes will be subject to full re-measurement. It told me that a dedicated team of Quantity Surveyors was established to manage the closure of outstanding legacy planned maintenance schemes in this area and this work is nearing completion. The relevant schemes have now been re-inspected and re-measured to agree and ensure the accuracy and completeness of any payments due to the contractor. The Housing Executive is

currently seeking to reach a satisfactory closure of these schemes and is working closely with the contractor and their appointed legal and technical experts.

Developments in the Housing Executive Direct Labour Organisation

Background

32. Response maintenance work is normally carried out by external contractors with the Housing Executive retaining a small share, delivered by its own Direct Labour Organisation (DLO). The DLO services include building and grounds maintenance, adaptations for the disabled, electrical inspections, plumbing, change of tenancy repairs and security of empty properties.
33. In June 2013 two response maintenance contractors went into administration. To ensure continuity of service to tenants the Housing Executive allocated some of their contracts to the DLO which has resulted in its major expansion. Turnover has increased from £7.7 million in 2012-13 to nearly £23 million in 2014-15 and staffing levels have increased from 185 to around 480.
34. A business case, approved by the Housing Executive Board in October 2013, was considered by the Department in December 2014. The Housing Executive was asked to continue to keep the Department informed of any material issues associated with the delivery of services by the DLO via the accountability meetings.

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35. In April 2014 the DLO Performance and Development Committee was established as a sub-committee of the Board to provide assurance on the effectiveness and efficiency of management, performance, governance and compliance of the DLO.

Issues facing the Housing Executive following DLO expansion

36. Under the 2006 Transfer of Undertakings Protection of Employment (TUPE) Regulations when all or part of a business is bought or sold, the terms and conditions of the employees transfer to the new employer. Consequently when the two contractors went into administration 215¹⁴ employees were transferred to the Housing Executive. The Housing Executive has informed me that checks have been carried out to ensure that it fully met its TUPE obligations and that only staff working on its contracts were transferred.

37. Under these Regulations and the Fair Deal policy¹⁵ the transferred employees are entitled to the same pension rights as other Housing Executive employees. With the increase in salary and pensions expenditure due to these staff transfers, the Housing Executive has had to deal with significant unanticipated costs in a climate of severe budgetary pressures which is concerning.

38. The Housing Executive has informed me that it has now sought legal advice which indicates that the Housing (NI) Order 1981 could allow it to set up a separate

pension scheme for certain groups who may in future, under legislation, become Housing Executive employees. The Housing Executive Board and Department approval for such an arrangement is to be sought. I intend to monitor this situation closely.

39. The major expansion of the DLO has led to the need for further capital investment in property and motor vehicles. The Housing Executive has purchased a depot in Portadown, signed a three year lease for a large depot in Belfast and closed some smaller depots. When the contracts were transferred to the DLO in June 2013 a short term solution was put in place to contract hire 125 vans, at an annual cost of £850,000 per year, amounting to approximately £2.5 million over three years. The actual cost of purchasing these vehicles outright has been estimated to be approximately £1.0 million¹⁶. While the Housing Executive Board has recently approved the award of the contract for supply, given average lead times for delivery and fitting out, the vehicles are unlikely to be in service until October 2015. There seem to be clear value for money implications arising from the delay in procuring these vehicles.

Future plans for the DLO

40. I note that the DLO is monitored in the same way as other external contractors and AAD's inspections this year found its work to be of a good standard. I asked the Housing Executive about its future strategy for the DLO, how it intends to ensure that this service provides value for

14 A further eleven employees were TUPE'd in from another contractor in February 2014.

15 Non-statutory guidance which operates alongside TUPE.

16 Details taken from the September 2014 AAD (Internal Audit) report on DLO.

money and is commercially competitive. I was told that the Housing Executive is currently in the process of recruiting a new Head of DLO who will be charged with bringing a more commercial approach to the work of the unit. Moreover, the approved work programme for the DLO is very much focused on improving the efficiency of the operation, particularly the introduction of modern technology to facilitate dynamic work scheduling, automatic routing of vehicles and real-time upload of visit outcomes to central management systems. In June 2015, the DLO received Board approval to purchase new vehicles to replace a more costly hire arrangement which had been implemented when the service was transferred in-house and the Housing Executive are of the view this will contribute to real cost reductions. Alongside these actions, there are currently ongoing negotiations with trade union side to harmonise terms and conditions of transferred staff to develop a more sustainable employee cost base.

Part 2: Housing Benefit

Qualified opinion due to estimated levels of fraud and error in housing benefit expenditure

Key Points:

- Level of estimated fraud and error continues to rise
- Significant increase in levels of customer fraud from £11.7 million to £17.1 million
- Qualified audit opinion due to material level of estimated fraud and error in housing benefit remains

Background and methodology

41. Housing benefit is a means-tested benefit to help people on low income pay rent. The Housing Executive administers it on behalf of the Department who fund customer payments and the majority of administrative costs. Eligibility depends on several factors including: income and capital; household size; ages and circumstances and rent levels. In 2014 -15, the Housing Executive spent £671 million (2013-14: £657 million) on housing benefit.
42. The Department's Standards Assurance Unit (SAU) review a sample of ongoing housing benefit claims for evidence of fraud or error regularly throughout the year. The results of this are used to estimate the level of fraud and error for the year and, as they are based on a sample, are subject to statistical uncertainties. My staff examined the work undertaken by the SAU and I am content that the results produced by them are a reliable estimate of the total fraud and error in the housing benefit system.
43. Where fraud and error has resulted in an over or underpayment of benefit to an individual who is either not entitled to housing benefit, or is paid at a rate which differs from that specified in the legislation, the payments have not been made in line with the governing legislation and are therefore irregular. I consider all overpayments and underpayments made as a result of official error to be irregular.
44. Consequently for a number of years I have qualified my regularity opinion in respect of the estimated level of fraud and error

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in housing benefit expenditure which I consider material.

Results of SAU testing in 2014

Types of fraud and error

45. The SAU examines housing benefit claims for the following types of fraud and error:

- Customer fraud arising where customers deliberately seek to mislead the Housing Executive, for example, by under declaring assets or falsely stating their own or their partner's earnings.
- Customer error relating to situations where customers have made mistakes in claiming benefit which are not judged to have arisen from fraudulent intent, for example, many customers incorrectly believe that reporting changes once to a public body will lead to all government bodies updating their records for that individual.

- Official error arising when housing benefit is paid incorrectly due to inaction, delay or a mistake by the Housing Executive, for example, incorrectly applying a customer's income.

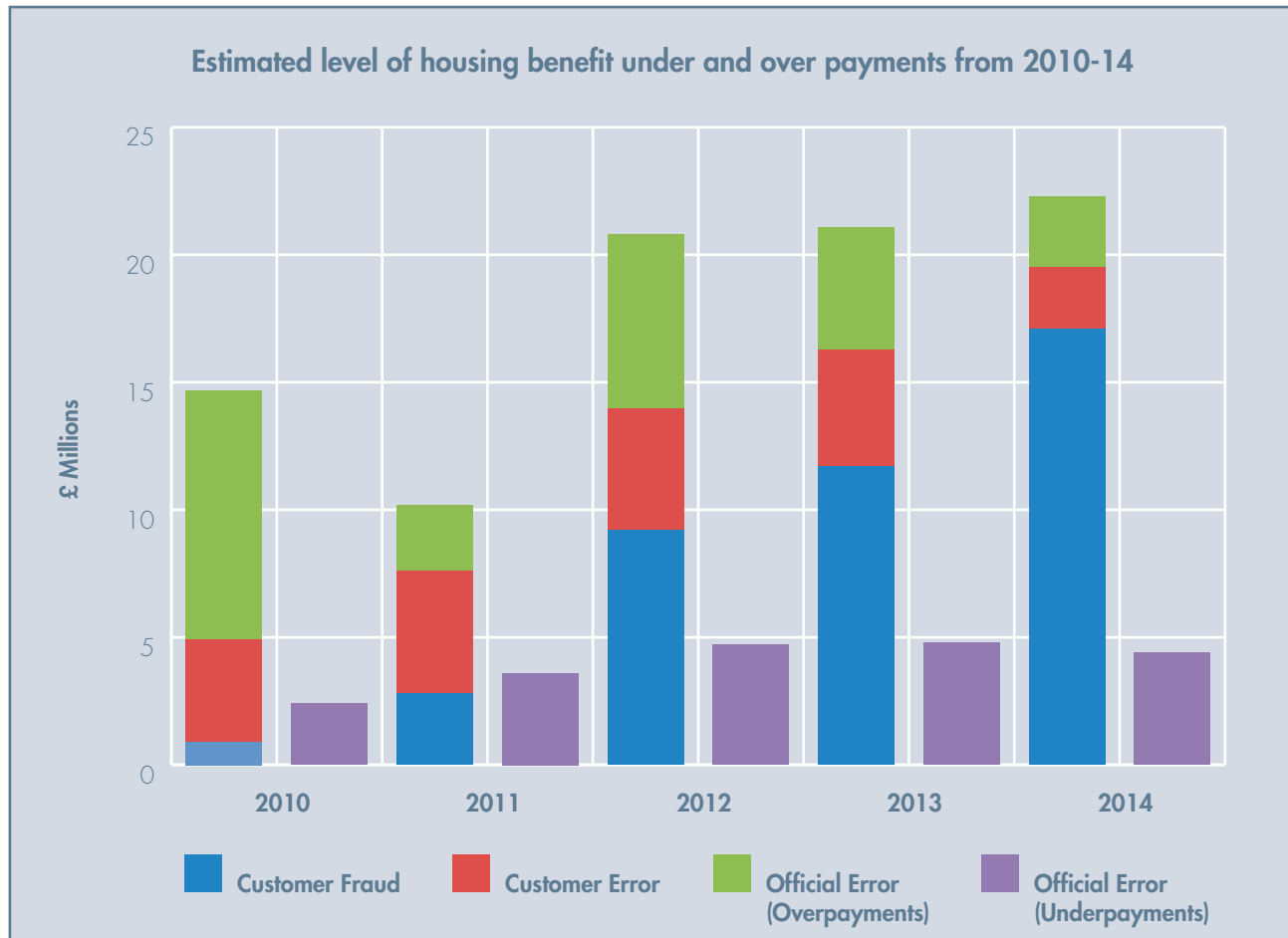
46. Note 30 to the financial statements (entitled 'Fraud and Error') details the estimated levels of fraud and error based on the SAU's work in 2014.¹⁷ This shows that the total amount of estimated irregular payments in 2014 was £26.7 million comprising:

- overpayments due to customer fraud and error and official error of £22.3 million (3.4 per cent of housing benefit payments); and
- underpayments due to official error of £4.4 million (0.7 per cent of housing benefit payments expenditure).

A detailed breakdown of these figures over the past five years is shown in Figure 4.

¹⁷ SAU report the results of their testing on a calendar year basis to facilitate the timetable for the production of the financial statements. The amount of housing benefit expenditure paid in the 2014 calendar year was £650 million whereas the amount paid out in the financial year 2014-15 is £671 million as disclosed in Note 8 to the accounts.

Figure 4: Breakdown of estimated level of fraud and error by type over the last five years



	2010	2011	2012	2013	2014
Total Housing Benefit Expenditure	£568.3m	£558.5m	£612m	£659m	£650m
Overpayments due to:					
Customer Fraud	0.9	2.8	9.2	11.7	17.1
Customer Error	4.0	4.8	4.8	4.6	2.4
Official Error	9.8	2.6	6.8	4.8	2.8
Total overpayments	14.7	10.2	20.8	21.1	22.3
% of overpayments	2.6%	1.8%	3.4%	3.2%	3.4%
Total underpayments due to official error	2.4	3.6	4.7	4.8	4.4
% of underpayments	0.4%	0.6%	0.8%	0.7%	0.7%

Source: SAU reports

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47. Figure 4 shows that the estimated level of overpayments is continuing to rise and at £22.3 million is now 3.4 per cent of total benefit expenditure. This is 52 per cent higher than it was five years ago and this appears to be largely due to increasing levels of customer fraud which comprise more than 77 per cent of total overpayments in 2014. The SAU found evidence that in the majority of these cases fraud arose due to earnings and income being incorrectly declared or it originated in the social security benefit which 'passported' entitlement to the housing benefit. I note that the estimated level of customer error has decreased by 48 per cent to £2.8 million since last year. In more than half of these cases errors were due to incorrect declarations of earnings and income.
48. As official errors arise from mistakes by the Housing Executive these errors are within its control and it is best placed to reduce them. The estimated level of overpayments due to official error continues to drop considerably and at £2.8 million this year is close to the lowest it has been over the past five years. I also note that the level of estimated underpayments due to official error has decreased marginally since last year to £4.4 million and is 0.7 per cent of expenditure.
49. During the year the Accounting Officer asked the Social Security Agency (the Agency) to conduct a Peer Review of the Housing Executive's fraud and error strategy to highlight any areas of weakness and recommend any scope for improvement. While this strategy focuses solely on customer fraud and error the review team also looked at the Housing Executive's approach to official error given its impact on fraud and error figures. The review team identified scope for:
- improvement in terms of implementing a single joined-up approach to targeting, detecting, investigating and removing customer fraud and error from across the social security and housing benefit customer base;
 - a more focused and intensive governance regime to set expectations and oversee delivery and results; and
 - a much greater emphasis on targeting and removing staff error with associated governance arrangements akin to that used for social security benefit payments.
50. The report concluded that the two options for addressing its conclusion and findings would be to work to address the weaknesses highlighted within the existing Housing Executive framework or integrating, through co-location and joint working, the delivery of Housing Executive fraud and error services within the wider Agency fraud and error infrastructure.
51. I note that the Accounting Officer has provided comprehensive detail on the wide range of measures being undertaken to prevent and detect fraud and error in housing benefit expenditure in the Annual Governance Statement. Furthermore, he has also referred to the Peer Review and commented that an outline plan has been agreed and will be built on during the coming year.

Qualification of regularity opinion due to estimated level of fraud and error in housing benefit payments

52. I recognise that the Housing Executive continues to dedicate considerable efforts and resources to address housing benefit fraud and error. I note that the level of estimated customer fraud has risen considerably this year and at £17.1 million is now at its highest level. The estimated levels of fraud and error in housing benefit expenditure remain material at £26.7 million. I consider this to be irregular as this expenditure has not been applied in accordance with the purposes intended by the Northern Ireland Assembly and therefore I have again qualified my

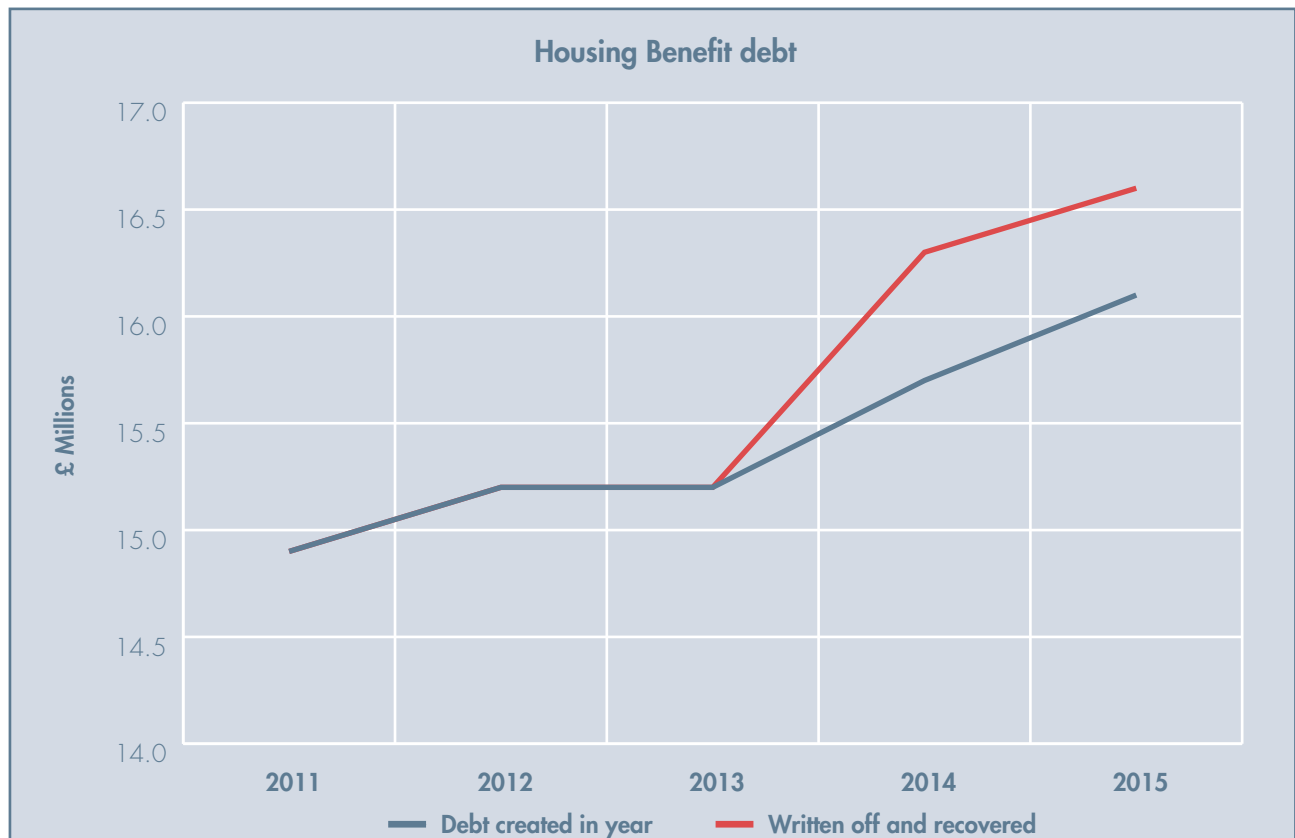
regularity audit opinion for 2014-15 in this area.

Other issues relating to Housing Benefit

Benefit overpayments to be recovered

53. Benefit overpayments arise whenever benefits are paid in error to customers. During the year the gross level of housing benefit overpayments owed by claimants increased from £49.4 million to £50.9 million. Figure 5 compares the recovery of benefit overpayments by the Housing Executive over the last five financial years to the new benefit debt created.

Figure 5: Trends in the recovery of Housing Benefit Overpayments



Source: Housing Executive

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54. Figure 5 shows that for the first three years the Housing Executive write-off and recovery of debt was in line with new benefit overpayment debt created. Since 2013 more debt has been written off and recovered than created. When I asked the Housing Executive to comment on the reasons for this improvement it told me that management introduced localised recovery targets to provide a clearer focus on recovery action. In addition, management reviewed the different recovery methods being applied and the effectiveness and impact of each method was critically assessed. This allowed prioritisation of resources for those methods which produced better results. The Housing Executive plans to build on the improvement achieved by creating a specialist team dedicated solely to recovery of overpayment debt later this year.

Social Housing Tenancy fraud

55. Housing tenancy fraud is the use of social housing by someone who is not entitled to it or does not need it. Frauds include subletting for profit, providing false information in a housing application and abandoning the property with no one living there. Tenancy fraud deprives those on housing waiting lists and the homeless of a permanent social home and creates significant additional cost for the taxpayer in providing temporary accommodation and in building additional new social homes.

56. In September 2013 I published a report¹⁸ on this area and following a Public Accounts Committee hearing in May

2014, the Committee published a report¹⁹ in October 2014. The Committee's report highlighted that:

- Northern Ireland's social housing providers had been slow to react to the increased recognition of tenancy fraud in Great Britain and that the Housing Executive and Housing Association activity was reactive and largely confined to dealing with abandoned properties;
- The Committee was concerned at the significant increase in the cost of providing temporary accommodation for homeless families, with costs more than doubling from £5.2 million in 2008 to £10.9 million in 2013;
- Collaboration between a range of bodies would be the most effective means of tackling tenancy fraud. A key element of this would be the establishment of formal protocols between social housing providers and utility companies. This data opens up a valuable source of evidence in the investigation of suspected tenancy fraud; and
- The Northern Ireland Tenancy Fraud Forum has been tasked with reviewing the legislative position and the feasibility of establishing a single tenancy fraud investigatory team for social housing providers in Northern Ireland.

57. In response to the findings and recommendations in my report, the

18 Tackling Social Housing Tenancy Fraud in Northern Ireland, 24 September 2013, Report by the Comptroller and Auditor General.

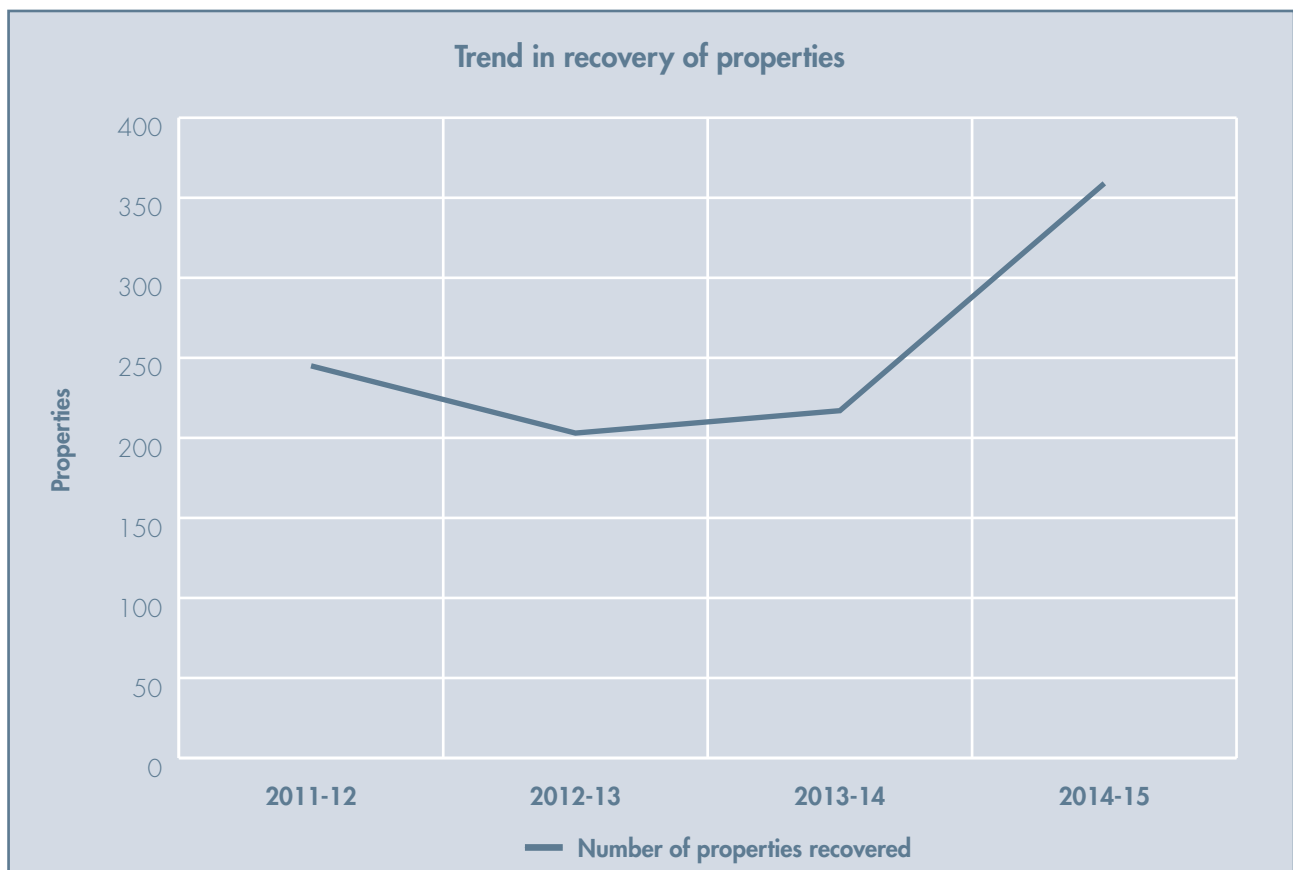
19 Report on Tackling Social Housing Tenancy Fraud in Northern Ireland, 24 September 2014, Public Accounts Committee.

Housing Executive reviewed its Tenancy Fraud Strategy and established a Tenancy Misuse/Fraud Strategy Action Plan, approved by the Board in October 2013. This strategy sets out new measures to address tenancy fraud including unannounced visits, new data sharing arrangements with utility providers, roll out of general publicity, and liaison with housing community networks to raise awareness and an enhanced training programme for housing management staff.

- 58. The enhanced counter fraud measures have led to an increase in the number of Housing Executive properties being recovered, with numbers increasing from 217 in 2013-14 to 359²⁰ in 2014-15.

Figure 6 shows the trend in recovery over the last four years. I also note that the Housing Executive had its first successful conviction for tenancy fraud in December 2014. The tenant received a three month suspended jail sentence after subletting his Housing Executive property while at the same time receiving housing benefit allowance for the same address. This prosecution sends out a clear message to anyone perpetrating or considering tenancy fraud. I note that the Accounting Officer has referred to further action being taken in the Governance Statement. I anticipate that this action will lead to an increase in the number of properties recovered.

Figure 6: Trend in recovery of properties by the Housing Executive



Source: Housing Executive

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National Fraud Initiative

59. The National Fraud Initiative (NFI) is an exercise to conduct data matching reviews to assist in the prevention and detection of fraud and I welcome that the Housing Executive has fully engaged with this process. The outcomes to date of this exercise in Northern Ireland have demonstrated the value of NFI in identifying and countering benefit fraud and error.
60. The Housing Executive has taken part in three NFI exercises which have involved comparing sets of data such as payroll and occupational pension records with its housing benefit records. Work on the 2014-15 NFI exercise is currently underway and I note that this exercise has identified around 23,000 matches, of which just over 89 per cent related to housing benefit. These are currently being processed by the Housing Executive.
61. I also note the voluntary participation of two of the larger Housing Associations this year, OakleeTrinity and Helm. I hope to see others participating in the next NFI exercise.

Part 3: Overall Conclusion

62. I have qualified my regularity opinion on the Housing Executive's 2014-15 accounts for the following reasons:
- On planned maintenance expenditure because sufficient evidence has not been provided in respect of the controls operated by the Housing Executive over work done by contractors on its planned maintenance programme;
 - On the heating element of response maintenance expenditure because, while there has been considerable progress in the management of response maintenance contracts, I have not been provided with sufficient evidence in this particular area; and
 - On material levels of estimated fraud and error in housing benefit expenditure.

NIAO Reports 2014-2015

Title	Date Published
2014	
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Improving Pupil Attendance: Follow-Up Report	25 February 2014
Belfast Metropolitan College's Titanic Quarter PPP Project	25 March 2014
Safer Births: Using Information to Improve Quality	29 April 2014
Continuous Improvement Arrangements in Policing	6 May 2014
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Managing and Protecting Funds Held in Court	1 July 2014
Modernising benefit delivery in the Social Security Agency's local office network	11 November 2014
Local Government Auditor's Report - 2014	18 November 2014
Primary Care Prescribing	27 November 2014
Financial Auditing and Reporting: General Report by the Comptroller and Auditor General for Northern Ireland – 2014	9 December 2014
2015	
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Local Government Auditor's Report – 2015	23 June 2015
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Published and printed by CDS

CDS 143429

ISBN 978-1-911003-07-6



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