



House of Commons
Northern Ireland Affairs
Committee

**Northern Ireland
Departments' 2002–03
Resource Accounts**

Third Report of Session 2004–05

*Report, together with formal minutes, oral and
written evidence*

*Ordered by The House of Commons
to be printed 15 December 2004*

HC 173
[Incorporating HC 1040-i, Session 2003-04]
Published on 11 January 2005
by authority of the House of Commons
London: The Stationery Office Limited
£10.00

The Northern Ireland Affairs Committee

The Northern Ireland Affairs Committee is appointed by the House of Commons to examine the expenditure, administration, and policy of the Northern Ireland Office (but excluding individual cases and advice given by the Crown Solicitor); and other matters within the responsibilities of the Secretary of State for Northern Ireland (but excluding the expenditure, administration and policy of the Office of the Director of Public Prosecutions, Northern Ireland and the drafting of legislation by the Office of the Legislative Counsel).

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The Committee is one of the departmental select committees, the powers of which are set out in House of Commons Standing Orders, principally in SO No 152. These are available on the Internet via www.parliament.uk.

Publications

The Reports and evidence of the Committee are published by The Stationery Office by Order of the House. All publications of the Committee (including press notices) are on the Internet at www.parliament.uk/parliamentary_committees/northern_ireland_affairs.cfm.

Committee staff

The current staff of the Committee are Dr John Patterson (Clerk), Hugh Farren (Attached Clerk), Dr Aileen O'Neill (Committee Specialist), Tony Catinella (Committee Assistant), and Janet Trevellyan (Secretary).

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Contents

Report	<i>Page</i>
Summary	3
1 Introduction	5
Department of Finance and Personnel	6
Qualified Resource Accounts	6
The Accounting Services Programme	7
Use of consultants	7
Department for Social Development	9
Disclaimer Audit Opinion in 2001-02, 2002-03 and 2003-04	9
High Fraud and Error Levels	10
Child Support Agency	11
Conclusions and recommendations	12
Formal minutes	14
Witnesses	15
List of written evidence	15
Reports from the Northern Ireland Affairs Committee since 2001	16

Summary

The level of negative (or ‘qualified’) audit opinions on the accounts of Northern Ireland departments remained high in 2002–03, although some progress has been made in reducing these in the 2003–04 accounts.

The Department of Finance and Personnel (DFP) is addressing this issue, including the establishment of a new, cross-departmental accruals-based finance system. However, as implementation of the new system is unlikely to begin until 2006, there is a significant risk that Northern Ireland departments will fail to meet the deadline for the government’s important ‘faster closing’ and Whole of Government Accounts programmes which are aimed at increasing the usefulness of accounts.¹ The DFP needs to do more to adhere to the government’s timetable for these programmes. It also needs to exercise rigorous quality control over departments’ resource accounts.

Of particular concern is the Department for Social Development (DSD) where little effective progress was made between 2001–02 and 2002–03 in addressing the causes of its severe audit qualification with levels of fraud and error rising to £120.9 million. Despite a small reduction in fraud and error levels in the 2003–04 accounts, similar problems have persisted in 2003–04. The Department needs to take effective action to stem further unacceptable losses.

Our inquiry has highlighted serious problems with the Child Support Agency’s CS2 computer system which are impeding fully effective benefit administration. The government admits that these problems are “unacceptable”,² but we detected little evidence of a strong remedial plan. Our report seeks reassurance from the government that firm action will be taken to address these problems.

Overall, we are disappointed at the apparent lack of leadership historically exercised by Department of Finance and Personnel; and that a pattern of serious failings persists each year at the Department for Social Development. These problems represent a systemic failure of sound administration. Strong action needs to be taken by the government to improve operational efficiency of the Northern Ireland departments’ resource accounting. We shall return to this subject in due course, and shall expect to see significant improvements.

1 Q19 and Q 30

2 Appendix 2

1 Introduction

1. The Northern Ireland Affairs Committee set up a sub-committee in December 2003 to scrutinise areas of devolved government during the suspension of the Northern Ireland Assembly. Our inquiry focused on the Northern Ireland Departments' 2002–03 resource accounts, taking into consideration the 2003–04 accounts where appropriate.

2. We concentrated on two Northern Ireland departments: the first provides an overall picture of accounting practice; the second provides an example of specific, front-line delivery problems:

- The Department of Finance and Personnel (DFP) is responsible for a wide variety of functions including, guidance to Northern Ireland Departments on financial practice and public accountability, and overseeing the introduction of resource accounting.
- The Department for Social Development (DSD) has responsibility for urban regeneration, community and voluntary sector development, social legislation, housing, social security benefits, pensions and child support. The Department oversees two Executive Agencies: the Northern Ireland Housing Executive and the Child Support Agency. DSD's accounts were severely qualified in 2001–02, 2002–03 and 2003–04.

3. The Sub-committee took oral evidence from the leading officials of DFP and DSD on 8 September 2004. The transcript of evidence and subsequent correspondence between the Committee and Mr Ian Pearson MP, Parliamentary Under-Secretary of State at the Northern Ireland Office, are published with this report. We are grateful to the House of Commons Scrutiny Unit for its assistance, and to all those who contributed to this inquiry.

Department of Finance and Personnel

Qualified Resource Accounts

4. Northern Ireland departments received ten negative, or ‘qualified’, audit opinions on their resource accounts in 2001–02 (the first year of implementation), seven in 2002–03, and four in 2003–04, the most recently published set of statements.³ In his General Report on the 2002–03 accounts, the Comptroller and Auditor General for Northern Ireland (C&AGNI) noted that “some departments still have considerable work to do to bring their financial reporting up to the standard the Assembly and Parliament have a right to expect.”⁴ **Northern Ireland Departments are continuing to attract an unacceptably high level of negative audit opinions.**

5. The Department of Finance and Personnel (DFP) accepted that “there have been difficulties in the implementation of resource accounting across Northern Ireland departments”. The Department considered that these were “associated with the introduction of devolution” and pointed out that devolution was “a unique issue as far as Northern Ireland was concerned. It meant that we only had one dry run at resource accounts compared with two in Great Britain.”⁵ However, this was not the only problem. DFP noted that when “resource accounting was introduced in 2001–02 it was clear that, despite preparations, some departments did not have enough staff with the financial skills necessary to prepare sufficiently robust resource accounts.”⁶

6. When asked about the level of oversight and control it exercises over departments and their resource accounts, DFP confirmed that it works closely with departments and “where we can support them we try to do so”, but that the production of accounts “remains...the responsibility of the department concerned at the end of the day”⁷

7. The preparations for devolution in 1999 placed additional strains on the civil service in Northern Ireland but this does not provide sufficient explanation for the unacceptably high number of Northern Ireland departments receiving negative audit opinions in 2002–03, three years later. We were also disappointed that departments had failed to deploy sufficient numbers of properly qualified staff to meet the challenge of resource accounts when the move from cash to resource accounting had been known about for some years. This appears to be the result of insufficient preparation on the part of DFP and departments. While the recruitment of staff with accounting expertise appears to have gone some way to addressing the staffing issue in 2003–04, **we remain concerned about the rigour of financial management in Northern Ireland departments. The guidance offered by the Department of Finance and Personnel (DFP) to departments appears to have been ineffective at a time when resource accounting was being introduced and**

3 Appendix 2

4 Northern Ireland Audit Office, *Financial Auditing and Reporting: 2002–2003, General Report by the Comptroller and Auditor General for Northern Ireland*, June 2004, HC 673 2003–2004, page 9, hereafter referred to as the ‘*General Report 2002–2003*’

5 Qq 1, 3

6 Appendix 2

7 Q 24

strong central guidance would have been particularly useful. We expect the DFP and departments to learn from this experience, and for the DFP to provide more focussed and effective leadership in future. It must be a clear priority for Northern Ireland departments to reduce the present level of negative audit opinions significantly.

The Accounting Services Programme

8. Northern Ireland departments are committed to meeting the HM Treasury timetables for ‘faster closing’ and Whole of Government Accounts (WGA). The intention of these programmes is to provide users with more up-to-date, transparent financial information, giving a clearer picture of the public finances as a whole. Both initiatives rely on the production of audited resource accounts by the summer recess for the 2005–06 financial year onwards.

9. In order to improve departments’ financial management and respond to these initiatives DFP is developing the Accounting Services Programme which the Department told us is “designed to provide the information that we need in a format which will enable us to better manage departments’ resources, to post information more quickly and to complete the accounts more quickly.”⁸

10. Unfortunately the DFP may fail to meet the Treasury’s timetable. Officials told us that “rolling out the new management information system we think will take from April 2006 through to March 2008.”⁹ Consequently, DFP regards meeting the Treasury timetable as an “aspiration”, and we were told that as “the Accounting Services Programme unfolds, the deadline looks difficult ... across Northern Ireland departments as a whole”.¹⁰

11. The Committee welcomes the action taken by departments to address the weaknesses in financial management. However, we are concerned that the extended timetable for the Accounting Services Programme will mean that the deadlines for ‘faster closing’ and WGA are unlikely to be met by Northern Ireland departments, and that this will impede action to reduce the level of negative audit opinions. Meeting the ‘faster closing’ and WGA deadlines is extremely important, and we strongly recommend that the government ensures that these are met from 2006 onwards.

Use of consultants

12. The Department of Finance and Personnel has two main roles in the purchasing of consultancy services: first, to provide tendering and contract management services under Framework Agreements for all departments; and, second, monitoring and auditing departmental expenditure, and responding to Parliamentary Questions.

13. The Committee was troubled by the C&AGNI report in 2004 which concluded that “departments may have failed to secure savings in excess of £2 million per year because they are not using the Framework.”¹¹ The report also found “a number of areas where the

8 Q 4

9 Q 19

10 Q 30

11 Northern Ireland Audit Office, *Use of Consultants by Northern Ireland Government Departments*, June 2004, HC641 2003–2004, page 11

accuracy and completeness of DFP's database [for monitoring, auditing and responding to Parliamentary Questions] needs to be improved".¹²

14. DFP officials acknowledged "the need to improve performance across the piece in respect of engagement of consultants." We were assured that "new guidelines" are "well advanced which will strengthen the current policies." The Department was clear that the "old policies will be updated to take into account developments in procurement, practice and policy."¹³ DFP said that new guidelines would be issued before the end of 2004, and that it "has now taken responsibility for the maintenance of a database of all consultancy assignments".¹⁴

15. Departments have failed to apply the existing rules on contracts and may have lost the opportunity to secure annual savings of £2 million as a consequence. Such laxity in procurement practice is unacceptable and there must be no repetition. The development of revised guidance for departments on the use of consultants is welcome. But revised guidance alone will not be sufficient. Departments need to be reminded forcibly of the need to act in accordance with the guidance, and without the proper training of staff and their commitment to implement the guidance, improvement is unlikely. In its response to this report we expect the government to set out in detail how it is addressing these issues. We expect the Department to meet its target of the end of 2004 for the issue of new consultancy guidelines.

12 *ibid*, page 12

13 Q 34

14 Appendix 2

Department for Social Development

Disclaimer Audit Opinion in 2001–02, 2002–03 and 2003–04

16. The Committee is concerned that the Department for Social Development (DSD) received a second consecutive ‘disclaimer’ qualified audit opinion in 2002–03, and we note with great unease that the situation remains unchanged in 2003–04. The failings cited in the 2002–03 audit report, customarily prepared to support a qualified opinion, were identical to those reported in 2001–02:

- significant levels of fraud and error in certain social security benefits
- limitations in the available evidence for Child Benefit payments
- weaknesses in financial control and monitoring of Registered Housing Associations grants
- weaknesses in financial control and monitoring of urban regeneration and community development grants, and
- weaknesses in audit trails resulting in limited evidence to support significant social security debtor and creditor balances.¹⁵

With the exception of the limitation of available evidence for Child Benefit payments, the reasons set out above were again the cause of the 2003–04 qualification.

17. DSD conceded that this was “not a comfortable position to be in”.¹⁶ It elaborated on how it was addressing the causes of fraud and error in social security benefits, housing allowances and urban regeneration grants. The Department detected some “signs of improvement” in the case of social security benefits, but believes that “we will not be out of the woods this year”.¹⁷

18. A pattern has developed in which the Department is repeating the same failures year after year. Insufficient attention is being directed towards financial control and monitoring. Despite almost identical causes for the audit qualification over the last three years, it remains unclear when DSD’s actions will result in tangible and lasting improvements as no timetable appears to exist for remedial action.

19. The Department for Social Development needs to make a sustained effort to improve its financial control over the grants, benefits and payments for which it is responsible. This should go some way to addressing the causes of its unacceptably poor audit qualification record. In its response to this report, we expect the government to set out clear and measurable milestones for the Department to achieve a clear audit opinion.

15 General Report 2002–2003, page 32

16 Q 36

17 Q 36

High Fraud and Error Levels

20. In 2002–03, the Department for Social Development (DSD) experienced losses resulting from fraud and error of £120.9 million.¹⁸ This was a significant increase over 2001–02, where total fraud and error was £120.5 million or 6.5% of social security expenditure, despite reductions to fraud and error in both Income Support and Jobseeker’s Allowance.¹⁹ **It is alarming that the Department excused losses amounting to 7.6% of total benefits expenditure in 2002–03 as the product of “a very difficult set of schemes to administer”.**²⁰ This response suggested to us that the Department lacks a clear strategy for reducing these losses.

21. The two areas where total fraud and error increased in 2002–03 were Disability Living Allowance and Housing Benefit. Difficulties in producing case papers within agreed timescales contributed to the high fraud and error rates in Disability Living Allowance claims.²¹ We were told originally by officials that during 2002–03 problems contributing to Housing Benefit administration arose from the employment of 300 “inexperienced, casual, temporary staff dealing with Housing Benefit” at the Housing Executive.²² In later correspondence, the Minister corrected this point and explained that the increased errors in Housing Benefit payments were exacerbated by recruitment difficulties throughout the period 2001–02 to 2003–04.²³ We are grateful for this clarification, and for the information Mr Pearson provided to explain how DSD proposes to address the causes of fraud and error and improve staff training.²⁴

22. Whilst performance has improved in 2003–04, with total fraud and error levels declining to £112.3 million or 3.2% of total benefits expenditure, fraud and error rates on individual benefits fluctuate each year.²⁵ **The Department appears unable to maintain reductions in fraud and error across all benefits year-on-year.**

23. **Fraud and error levels are unacceptably high and senior officials in the Department for Social Development have not conveyed the sense of urgency that these matters clearly warrant. We are disappointed that the Department’s efforts to improve performance have not resulted in significant improvements. We expect the government to put in place effective measures to ensure that the present unacceptable haemorrhage of public funds is stemmed.**

18 *General Report 2002–2003*, p 32, para 1.4

19 Northern Ireland Audit Office, *Financial Auditing and Reporting: 2001–2002, General Report by the Comptroller and Auditor General for Northern Ireland*, April 2003, HC 551 2002–2003, p 44, para 1.6. Hereafter referred to as *General Report*

20 HC1040i, Q46

21 *General Report 2001–2002*, p 39, paras 2.13–2.14

22 Q 49

23 Appendix 2

24 Appendix 2

25 For example, fraud and error levels on Income Support improved in 2002–03 but worsened again in 2003–04, whilst fraud and error on Carer’s Allowance rose from £4.4 million or 6% in 1999–00 to £7.3 million or 9% in 2003–04

Child Support Agency

24. The Committee was pleased to hear that the operation of both old and new Child Support Agency (CSA) schemes “exceeds the ministerial target” and is better than the CSA performance in Great Britain.²⁶ However, we received disturbing evidence about the operation of the CSA’s computer.

25. The Child Support Agency began processing cases on a new computer system, the integrated computer and telephony system (CS2), on 25 November 2002. DSD explained that it eventually hopes to transfer existing cases to the new scheme.²⁷ However, the Minister told us that the new computer system is “beset by ... considerable and unacceptable problems” and is likely to require system fixes until 2005. Consequently, “there is no assurance” that the new system will work sufficiently well for existing cases to be transferred in bulk to it.²⁸

26. Action is needed to rectify unacceptable delays to the Child Support Agency’s new integrated computer and telephony system (CS2) which is preventing the effective administration of benefits. In addition, cases administered under the old system must be transferred to the new system as soon as possible. This can only happen when the technical problems currently plaguing the new system have been solved. In its response to this report, we expect the government to set out clearly what specific steps are being taken to address these problems, and in particular by when they expect the Department to have transferred all Child Support Agency cases to the new system.

26 Q 56

27 Q 56

28 Appendix 2

Conclusions and recommendations

1. Northern Ireland Departments are continuing to attract an unacceptably high level of negative audit opinions. (Paragraph 4)
2. We remain concerned about the rigour of financial management in Northern Ireland departments. The guidance offered by the Department of Finance and Personnel (DFP) to departments appears to have been ineffective at a time when resource accounting was being introduced and strong central guidance would have been particularly useful. We expect the DFP and departments to learn from this experience, and for the DFP to provide more focussed and effective leadership in future. It must be a clear priority for Northern Ireland departments to reduce the present level of negative audit opinions significantly. (Paragraph 7)
3. The Committee welcomes the action taken by departments to address the weaknesses in financial management. However, we are concerned that the extended timetable for the Accounting Services Programme will mean that the deadlines for 'faster closing' and WGA are unlikely to be met by Northern Ireland departments, and that this will impede action to reduce the level of negative audit opinions. Meeting the 'faster closing' and WGA deadlines is extremely important, and we strongly recommend that the government ensures that these are met from 2006 onwards. (Paragraph 11)
4. Departments have failed to apply the existing rules on contracts and may have lost the opportunity to secure annual savings of £2 million as a consequence. Such laxity in procurement practice is unacceptable and there must be no repetition. The development of revised guidance for departments on the use of consultants is welcome. But revised guidance alone will not be sufficient. Departments need to be reminded forcibly of the need to act in accordance with the guidance, and without the proper training of staff and their commitment to implement the guidance, improvement is unlikely. In its response to this report we expect the government to set out in detail how it is addressing these issues. We expect the Department to meet its target of the end of 2004 for the issue of new consultancy guidelines. (Paragraph 15)
5. The Department for Social Development needs to make a sustained effort to improve its financial control over the grants, benefits and payments for which it is responsible. This should go some way to addressing the causes of its unacceptably poor audit qualification record. In its response to this report, we expect the government to set out clear and measurable milestones for the Department to achieve a clear audit opinion. (Paragraph 19)
6. It is alarming that the Department excused losses amounting to 7.6% of total benefits expenditure in 2002–03 as the product of "a very difficult set of schemes to administer". This response suggested to us that the Department lacks a clear strategy for reducing these losses. (Paragraph 20)

7. The Department appears unable to maintain reductions in fraud and error across all benefits year-on-year. (Paragraph 22)
8. Fraud and error levels are unacceptably high and senior officials in the Department for Social Development have not conveyed the sense of urgency that these matters clearly warrant. We are disappointed that the Department's efforts to improve performance have not resulted in significant improvements. We expect the government to put in place effective measures to ensure that the present unacceptable haemorrhage of public funds is stemmed. (Paragraph 23)
9. Action is needed to rectify unacceptable delays to the Child Support Agency's new integrated computer and telephony system (CS2) which is preventing the effective administration of benefits. In addition, cases administered under the old system must be transferred to the new system as soon as possible. This can only happen when the technical problems currently plaguing the new system have been solved. In its response to this report, we expect the government to set out clearly what specific steps are being taken to address these problems, and in particular by when they expect the Department to have transferred all Child Support Agency cases to the new system. (Paragraph 26)

Formal minutes

Wednesday 15 December 2004

Members present:

Mr Michael Mates, in the Chair

Mr Roy Beggs

Mr Tony Clarke

Mr Iain Luke

Mr Stephen Pound

Reverend Martin Smyth

Mark Tami

Mr Bill Tynan

The Committee deliberated.

Draft Report (Northern Ireland Departments' 2002-03 Resource Accounts), proposed by the Chairman, brought up and read.

Ordered, That the Chairman's draft Report be read a second time, paragraph by paragraph.

Paragraphs 1 to 26 read and agreed to.

Resolved, That the Report be the Third Report of the Committee to the House.

Ordered, That the Chairman do make the Report to the House.

Ordered, That the provisions of Standing Order No. 134 (Select Committees (reports)) be applied to the Report.—(*The Chairman.*)

Ordered, That the Appendices to the Minutes of Evidence taken before the Committee be reported to the House.—(*The Chairman.*)

[Adjourned till Wednesday 12 January at 3.30 pm.]

Witnesses

Wednesday 8 September 2004

Page

Mr John Hunter and Mr David Thomson, **Department of Finance and Personnel**, and Mr Alan Shannon, Mr Derek Baker and Mr John Deery, **Department for Social Development**

Ev 1

List of written evidence

- 1 Letter to Ian Pearson MP, Parliamentary Under-Secretary of State, Northern Ireland Office from Rt Hon. Michael Mates MP, Chairman of the Committee Ev 11
- 2 Response from Ian Pearson MP, Parliamentary Under-Secretary of State, Northern Ireland Office to Rt Hon. Michael Mates MP, Chairman of the Committee Ev 13

Reports from the Northern Ireland Affairs Committee since 2001

The following reports have been produced by the Committee since the start of the 2001 Parliament.

Session 2004–05

First Report	Electoral Registration in Northern Ireland	HC 131
Second Report	The Parades Commission and Public Processions (Northern Ireland) Act 1998	HC 172-I

Session 2003–04

First Report	The Committee's work in 2003	HC 146
Second Report	The separation of paramilitary prisoners at HMP Maghaberry	HC 302
Third Report	Introduction of the Aggregates Levy in Northern Ireland: one year on	HC 395
Fourth Report	The Compensation Agency	HC 271
Fifth Report	'Hate Crime': The Draft Criminal Justice Northern Ireland Order 2004	HC 615
Sixth Report	Social Housing Provision in Northern Ireland	HC 493-I
First Special Report	Government Response to the Committee's Eighth Report on The Illegal Drugs Trade and Drug Culture in Northern Ireland, Session 2002–2003	HC 180
Second Special Report	Government Response to the Committee's First Report on the Work of the Committee in 2003	HC 510
Third Special Report	The Separation of Paramilitary Prisoners at HMP Maghaberry: Government's Response to the Committee's Second Report of Session 2003–04	HC 583
Fourth Special Report	Introduction of the Aggregates Levy in Northern Ireland: one year on The Government's Response	HC 666
Fifth Special Report	'Hate Crime' the Draft Criminal Justice Northern Ireland Order 2004 Government Response	HC 954
Sixth Special Report	The Compensation Agency Government Response	HC 955

Session 2002–03

First Report	The Impact in Northern Ireland of Cross-Border Road Fuel Price Differentials: Three years on	HC 105-I
Second Report	Annual Report 2002	HC 271
Third Report	The Police (Northern Ireland) Bill	HC 233
Fourth Report	The Control of Firearms in Northern Ireland and the draft Firearms (Northern Ireland) Order 2002	HC 67-I
Fifth Report	Forensic Science Northern Ireland	HC 204
Sixth Report	The Illegal Drugs Trade and Drug Culture in Northern Ireland: Interim Report on Cannabis	HC 353-I
Seventh Report	Peace II	HC 653-I

Eighth Report	The Illegal Drugs Trade and Drug Culture in Northern Ireland	HC 1217-I
First Special Report	Government Response to the Committee's First Report: The Impact in Northern Ireland of Cross-Border Road Fuel Price Differentials: Three Years On	HC 412
Second Special Report	Government Response to the Committee's Third Report: The Police (Northern Ireland) Bill	HC 555
Third Special Report	Government Response to the Committee's Second Report: Annual Report 2002	HC 583
Fourth Special Report	Government Response to the Committee's Fourth Report on the Control of Firearms in Northern Ireland and the Proposed Draft Firearms (Northern Ireland) Order 2002, HC 67-I, Session 2002-03	HC 677
Fifth Special Report	Government Response to the Committee's Fifth Report on Forensic Science Northern Ireland	HC 722
Sixth Special Report	Government Response to the Committee's Sixth Report on the Illegal Drugs Trade and Drug Culture in Northern Ireland: Interim Report on Cannabis	HC 935
Seventh Special Report	Government Response to the Committee's Seventh Report on Peace II	HC 1077
Session 2001-02		
First Report	Introduction of the Aggregates Levy in Northern Ireland	HC 333
Second Report	The Financing of Terrorism in Northern Ireland: Interim Report on the Proceeds of Crime Bill	HC 628
Third Report	Introduction of the Aggregates Levy in Northern Ireland: The Government's Response	HC 713
Fourth Report	The Financing of Terrorism in Northern Ireland. Volume II of this Report (HC 987-II) includes the Government Response to the Second Report, Session 2001-02, The Financing of Terrorism in Northern Ireland: Interim Report on the Proceeds of Crime Bill, HC 628	HC 978-I
First Special Report	Government Response to the Committee's Fifth Report, Miscellaneous Financial Matters, Session 2000-01, and the Government Response to the Committee's Third Report, The Northern Ireland Office 2000 Departmental Report, Session 1999-2000	HC 332
Second Special Report	Government Response to the Committee's Fourth Report, Legal Aid In Northern Ireland, Session 2000-01	HC 400
Third Special Report	Government Response to the Committee's Second Report, The Parades Commission, Session 2000-01	HC 401
Fourth Special Report	Government Response to the Committee's Third Report, Relocation Following Paramilitary Intimidation, Session 2000-01	HC 461
Fifth Special Report	Government Response to the Committee's Third Report, Introduction of the Aggregates Levy in Northern Ireland, Session 2001-02	HC 1118

Oral evidence

Taken before the Northern Ireland Affairs Committee (Northern Ireland Affairs Sub Committee)

on Wednesday 8 September 2004

Members present:

Mr Tony Clarke, in the Chair

Mr Adrian Bailey
Mr Iain Luke
Mr Eddie McGrady
Mr Stephen Pound

The Reverend Martin Smyth
Mark Tami
Mr Bill Tynan

Witnesses: **Mr John Hunter**, DFP, Permanent Secretary, **Mr David Thomson**, Treasury Officer of Accounts, Department of Finance and Personnel, **Mr Alan Shannon**, DSD, Permanent Secretary, **Mr Derek Baker**, Principal Establishment and Finance Officer and **Mr John Deery**, Department for Social Development, examined.

Q1 Chairman: I mentioned to Committee members earlier on that we have got members from the offices of the Department of Finance and Personnel and the Department for Social Development. A lot of our questions will cross reference. Please feel free to intervene, to swap chairs, to do whatever is necessary to make sure the Committee gets the answers it requires. I half apologise for starting off on a critical point, but feel as if we may need to, in as much that in evidence to the Committee of Public Accounts in February 2004, the Comptroller and Auditor General for Northern Ireland said: "Our departments are struggling to produce resource accounts, they have not yet incorporated them fully into their decision-making process". A significant number of departments received negative audit opinions on their resource accounts for both 2001–02 and 2002–03. This all appears to add up to poor financial management in Northern Ireland departments and the DFP's role in overseeing the introduction of resource accounting has been rather less than satisfactory. It is rather damning commentary. I am bound to ask, do you agree?

Mr Hunter: I think it falls to me, Chairman, to kick off in respect of that particular issue, given my role within DFP. We would accept that there have been difficulties in the implementation of resource accounting across Northern Ireland departments. A number of those difficulties have been common throughout the United Kingdom; lack of appropriate financial skills, difficulties over management information systems and also peculiarly to Northern Ireland, the introduction of the devolved administration, which coincided with the preparations for the introduction of resource accounting, when six departments overnight became 11. The difficulties that perhaps are best illustrated by my own department, which had to draw on five accounting systems to produce its first consolidated accounts because in terms of our organisation we would amalgamate five different parts of the departments. That was a significant organisational and logistical problem that we had to overcome. We

have, I believe, made progress over the last couple of years, in terms of developing our resource accounting skills and not least in producing the resource accounts both on time and to an improved quality. That is not to say we have cracked all the problems that exist, there are a number that we still have to address, not least the management information systems which are still cash-based. We might talk later on about our new accounting services programme and its significance in terms of developing the information base which would enable us to capitalise further on resource accounting. Perhaps I could conclude an introductory remark by saying that the C&AG did note, in that same report, there was a clear improvement in both quality and timeliness in respect of 2002–03 over 2001–02. He felt the problem with producing good quality accounts on time had been solved. The qualifications which remain within a number of the accounts—although fewer in the second year of resource accounting compared with the first—were problems sometimes of a technical kind; others were problems which would have existed whether or not we moved into the resource accounting field.

Q2 Chairman: To be clear, you said that the poor performance was not just in respect of Northern Ireland departments, you said there was poor performance elsewhere.

Mr Hunter: I said there were difficulties in introducing it across the UK. We had similar difficulties to those in some Whitehall departments.

Q3 Chairman: Would you accept that within the Northern Ireland departments there was a particular problem?

Mr Hunter: Yes. I think that was associated with the introduction of devolution. That was a unique issue as far as Northern Ireland was concerned. It meant that we only had one dry run at resource accounts compared with two in Great Britain.

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

Q4 Chairman: So the Committee can be clear about the areas identified as major weaknesses, these were monitoring expenditure against budgets, applying correct accounting treatment, arriving at robust estimates, and capturing accurate debtor and creditor balances. Those are the ones that were highlighted by the C&AG. How are you going to go about addressing those specific areas of weaknesses?

Mr Hunter: A number of those relate to the information base that we are working from, which is still largely cash based, as I said. It means that when we come to complete the resource accounts at the year end, we have to translate the cash-based information into resource based terms. We have a major investment programme on the way—the Accounting Services Programme—which is designed to provide the information that we need, both the financial management monitoring and indeed accounting purposes in a format which will enable us to better manage departments' resources, to post information more quickly and to complete the accounts more quickly.

Q5 Reverend Smyth: You did say that this was spread throughout Great Britain, would you accept an allegation that Northern Ireland was lagging behind most of Great Britain in that sort of resource management?

Mr Hunter: The position, as we understand it, is uneven across Great Britain. Some departments have information systems which are of a form which enables them rapidly to use the information from resource accounting techniques; others—like ourselves—have had to develop new management information systems. Compared with the former, we would be behind, compared with the latter, I believe our progress is consistent with theirs.

Q6 Reverend Smyth: Are there any particular circumstances in Northern Ireland which actively require DFP to make specific accounting or financial management provisions because the DFP follows the Treasury in London step-by-step?

Mr Hunter: If I could kick off the answer and then I will pass over to my colleague David Thomson. Basically, we would follow the Treasury step-by-step, assuming that developments in the Treasury are consistent with what we require and our needs in Northern Ireland, which is 99% of the time. There may be organisational differences that we have to take into account in translating treasury guidance for Northern Ireland purposes.

Mr Thomson: Chairman, maybe I could just add to that. There are some things that are specifically different in Northern Ireland. The Northern Ireland departments are clearly much smaller than the GB departments. On the other hand, their scope is much wider, particularly in the fact that they have a lot of activities that are over here in local government and not in mainstream government departments, such as local roads. Also, we have a water industry in public ownership in Northern Ireland. Those are issues that were not addressed by Whitehall departments, therefore, we had to develop our own accounting policies for things like local roads, the water

industry, infrastructure and a number of unique things in Northern Ireland departments which we had to address which were not being addressed elsewhere.

Q7 Reverend Smyth: That has been going on for a long time, has it not? That has nothing to do with the recent devolution?

Mr Thomson: No, they were to do with recent policies that were put in commercial accounting, like, how do you account for a road network and how do you account for a water industry. Those sorts of issues had to be addressed along with all of the activity that was going on in devolution.

Q8 Reverend Smyth: Have you found the answer for that for the future?

Mr Thomson: Yes, we do have accounting policies sorted. The other two issues that we are addressing are one, the systems and two, people skills. We have strategies in place for both of those.

Q9 Reverend Smyth: We recognise that the Treasury, for example, had a long lead-in time for the introduction of resource accounts, including the provision of training and of course resource budgeting with a dry-run. Earlier on, Mr Hunter referred to the fact that there was only one dry-run, but the Treasury suggested that dry-run was as far back as 1999. The devolution was coming in 1998. What had been happening in interim period?

Mr Thomson: We were in line with the Treasury right up to 1999. We were having the same training. We had the same informal procedures. We sat on the Treasury Committees. Then devolution occurred in 1999 and, as Mr Hunter has said, that meant we had to split the six departments and reallocate the budgets, the assets and everything right across 11 new departments. That became the priority for the finance people in those new 11 departments because it was very important that mainstream accounting and budgeting was maintained. We put our resource into sorting the devolution issues out rather than proceeding with resource accounting. We did not have the number of dry-runs that they did in Whitehall. We sorted out the devolution issues and, having sorted those out, we then came back but it meant that we lost some time. I think we have now largely caught up, but we are certainly a bit behind Whitehall.

Q10 Reverend Smyth: What help and support was provided by the Treasury to your department?

Mr Thomson: We have open access to the Treasury. I have a lot of contact with my Treasury colleagues. We have all the documentation and all the guidance. Our Treasury colleagues are often over in Northern Ireland providing training. Any information we want from the Treasury, they give us.

Q11 Reverend Smyth: Are all departments now just through DFP?

Mr Thomson: They are through DFP initially, but we will cascade it down to departments.

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

Mr Hunter: We do take the Treasury's guidance on resource accounting. We adopt their manual for Northern Ireland purposes. We follow their guidance in respect of accounting officer letters. We follow their guidance in respect of central government accounts and whole of government accounts. We have consulted them on the accounting issues that Mr Thomson mentioned surrounding those issues peculiar to Northern Ireland: the roads, water and the policies associated with accounting for those assets, so we have a close relationship. I believe our guidance is totally consistent with the guidance the Treasury has issued in Whitehall.

Q12 Reverend Smyth: Mr Thomson mentioned a question of the water and the roads, which are Stormont administrative rather than local government issues in Northern Ireland. Would you be in a position to tell us what other departments, for example over here, were having similar difficulties that you were having as distinct from those two spheres?

Mr Hunter: I am not sure.

Mr Thomson: I think there were lots. The one that obviously comes to my mind is the Ministry of Defence. The MoD had huge issues in determining how to account for everything from warships to missiles. I know from talking to my Treasury colleagues that a lot of time and effort was involved in that. We do not have that read-across, so that is something which occurred in Whitehall that did not have an impact in Northern Ireland. I am sure there are a lot of other examples as well.

Reverend Smyth: I appreciate that answer because some of us are never too sure about procurement in defence anyway.

Q13 Chairman: Could I just check back because Mr Hunter, you said that, by and by you follow the Treasury in London step-by-step and Mr Thomson quite rightly outlined to us several areas within Northern Ireland that are more difficult to apply those provisions to. Given that, as a devolved administration, you have got the power to set the financial reporting framework and any other related financial policy, this is not a case where the tools do not fit the task in hand?

Mr Hunter: I think over the years there has been a very close relationship. We sought to use, as far as possible, the Treasury's tools. The circumstances in which we had to adapt those tools in Northern Ireland are relatively small in number and do not generally exercise a great deal of policy time. The radical nature of resource accounting did throw up particular examples where we needed to explore issues and perhaps contributed in the process to the development of national policy because as the process is cascaded throughout local government, perhaps some of the learning in Northern Ireland experience will cascade down.

Q14 Mr Bailey: Given that the DFP's own accounts were qualified in the financial year 2001–02 and as a result of weak financial management and

“misunderstanding of new resource budgeting and accounting requirements”, would you not agree that you have a credibility problem? How do you expect other departments to take your role of improving financial management within the Northern Ireland departments seriously?

Mr Hunter: I admit to embarrassment over the 2001–02 accounts, but I believe the position was rectified in that we had a clean bill of health for 2002–03 and therefore it rectified the deficiencies which the C&AG had identified in the previous financial year.

Mr Thomson: I do not think, Chairman, that there is embarrassment in that, we were all having to work our way through this together. One of the advantages of the Northern Ireland system is that we do work closely together. There is a lot of inter-departmental discussion. We have inter-departmental groupings and we knew what the respective difficulties in the respective departments were. I think there was an understanding across departments that, yes, there were difficulties across the piece, including the DFP as a department.

Q15 Chairman: There was an over-spend in that particular year, was there not?

Mr Thomson: Yes.

Q16 Chairman: That was in terms of DETI and DARD spending £4.5 million over their budget and DFP was £4.78 million over its budget?

Mr Thomson: Yes.

Q17 Mr Bailey: Can you just explain why DFP was £4.78 million over budget. What was the single reason, if there was one, and what was it?

Mr Hunter: We might need to give you a written response to that particular question. My recollection is that some of it was a technical accounting issue.

Mr Thomson: It is a move to resource accounting because under cash accounting, as in an appropriation account, it was the cash you spent. The cash you spent is fairly easily controlled. Under resource accounting, there are lots of non-cash issues coming through. Quite often those do not materialise or cannot be quantified until the end of the year. If your systems are not totally up to speed to produce those figures during the year, it can come up and bite you at the end of the year and it was largely those non-cash and other resource accounting entries. People talk as if they are technical, but they are not, they are costs in another sense. They are the sorts of issues that were not being addressed under cash accounting. That is just a learning thing.

Q18 Mr Bailey: Can you give us a simple example?

Mr Thomson: Depreciation never appeared in cash accounts. We have “cost of capital” where you have to charge 3½% of your asset base; that did not appear on cash accounting. You have to make provisions for a liability that might occur that you know is going to occur. You do not have that under cash accounting. An impairment of an asset, where a valuation goes down and suddenly an asset you

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

thought was worth 10 million, the valuers are now saying it is worth nine million, so there is a million pound hit that comes through at the end of year. It is those sorts of issues that are causing the challenges under resource accounting.

Q19 Mr McGrady: I am very tempted to pursue the questions which you have just answered in terms of the provision of accounts of resource asset bases. It is not exactly rocket science and many small businesses have been doing it for centuries. In your introduction, Mr Hunter, you mentioned the new accounting service programme and you indicated that you might like to expand on that further on in this hearing. We will give you that opportunity to do that now and also to confirm that that accounting service programme is ready for rolling out and to what extent is it ready for rolling out in 2006?

Mr Hunter: Yes. 2006 is an important year because it is the year in which the Treasury is aiming to ensure the completion of accounts by July 2006, bringing it forward from the current date of 31 January. Our current accounts are presented by the 15 November of the previous year, so we have a slight lead over the GB situation. However, in order to complete in accordance with the Treasury timetable of July 2006, we need to have a far better financial management information system which we can draw on in order to ensure early closure. The stage we are at in respect of this better financial management system is that we have issued an invitation to negotiate with three bidders having explored the system with a range of potential bidders. They have been asked to provide responses to the invitation to negotiate by 8 October and it is our intention that we will let the contract to the preferred bidder on the basis of the best and final offer by March 2005. This will involve establishing a shared service centre which will bring together—in a back office function essentially—the finance staff across the 11 departments, providing an opportunity for substantial rationalisation and standardisation of function using an information system, which would be common across all 11 departments. Establishing that and rolling out the new management information system we think will take from April 2006 through to March 2008. We hope that we will begin from 2006–07 to be able to produce the accounts more speedily. Whether we will be able to meet the July date you mentioned remains in doubt as we complete the tendering process in respect of the new information system. David is the senior responsible officer for this project.

Q20 Mr McGrady: Before he answers—just to clarify in my mind what you have said and put it in my simplistic lay person's terms—does this bidder that you referred to and this back office provision going to be in fact the privatisation of the accounting services within the 11 departments?

Mr Hunter: No. At this point in time we are looking at this as an in-house back office function.

Q21 Mr McGrady: The in-house has proved to be incapable of doing the normal function.

Mr Hunter: I would not say that. What we are talking about here is the re-engineering of the financial management processes to produce a standardised system across the 11 departments. I believe we have the technical capacity to do that and the skills to do it but it can only be as we develop the partnership with the private sector as they help us to develop the new systems and processes.

Q22 Mr McGrady: Another pack of consultation fees which have been criticised in the same report without debating. However, I will leave that unless Mr Thomson wants to add to what you have said to Mr Hunter?

Mr Thomson: What we are trying to do is get one common accounting system for the whole of the Northern Ireland Civil Service which will have one common system, common processes, common chartered accounts, all the things you would expect. We would do that. Also we want then to get all the transactions together so that we will not have people processing travel claims 11 different times, we need one shared service centre processing everything. We will use the private sector to provide the IT, the kit, the software, those sorts of things which we are not very good at and the processing and the manpower will remain in the public sector forming a common basis for all 11 departments. It is a very big project, it is not primarily an IT project, IT is part of it. It is about processes, it about organisational change, it is about all of those sorts of things. It is proceeding well; I am very optimistic that by 2006, we will have a good solution for Northern Ireland.

Q23 Mr McGrady: I do not think through you, Chairman, that it could endorse your enthusiasm for such a venture at this stage. In the mean time, can we expect that the year 2003–04 and 2004–05, that we will have a series of negative PAC reports or Auditor General reports?

Mr Hunter: I hope not. There are problems obviously in respect of particular qualifications, which are difficult to collect and address and you may be coming on to those later in the session, but, I believe the improvements we have made to our systems and procedures will help us address some of the qualifications which have appeared in recent accounts from the C&AG.

Q24 Mr Luke: In the evidence given to the PAC in January of this year the Treasury revealed that where they consider in a department in GB, or indeed in England, there is evidence of poor financial control and there is reason to expect an end of year over-spend of reserve claims they put these departments on—what they call—special measures. I think this means having read the evidence they are put on monthly financial reporting, where they report the performance of the department concerned. Have you considered putting any of your consistently poor performing departments on these special measures?

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

Mr Hunter: We have a very close relationship with each of the 11 departments. The scale and nature of our operations permits us to liaise closely with colleagues across the NICS and we therefore have early warning mechanisms of problems emerging in particular departments. We seek to work closely with those departments in addressing those problems to the extent that they are capable of resolution in year and capable of resolution through concerted action. We do work closely with departments, we are sensitive to emerging problems and we do our best collectively to address those problems. It remains, of course, the responsibility of the department concerned at the end of the day for the production of the accounts but where we can support them we do try and do so.

Mr Thomson: One of the things about the devolved administration is we operate a single budget for Northern Ireland, the way you would in Scotland or Wales. We want to make sure that budget is allocated properly into the best uses, both during the year as well as the forward look, which means we will get data from departments on a regular basis throughout the year which gives us the flexibility to move resources around in year, as well as in forward years. We will be getting a lot more data from Northern Ireland departments than Treasury will from Whitehall departments, so that we can manage our budget in year.

Q25 Mr Luke: Do you do this by moving money around on a monthly basis or a quarterly basis?

Mr Thomson: We do it on a quarterly basis to make sure that resources are best used.

Q26 Mr Luke: Obviously when you are looking at those special measures that it was said the Treasury put in place in GB and English departments, then you have mechanisms that you think influence if you think the department is going to miss targets or over-spend?

Mr Thomson: Yes.

Chairman: Now, we touched earlier on the Gershon review and sharing back office functions, I know Mr Pound has a number of questions in relation to that possible move.

Q27 Mr Pound: I have to say you have been immensely perceptive gentlemen and you have answered most of my questions before I even asked them. I congratulate you on that. The idea of sharing particularly back office functions, is this independent of Gershon, or is this part of the 2.5% savings which will be opened up in the review? Is there a linkage there?

Mr Hunter: There is a linkage. We would take credit before Gershon in that our plans are in place on the accounting services programme on a new programme associated with human resource management, again back office function covering all 11 departments, re-engineering some of the business processes there. Also we are looking at ICT provision to the 11 Northern Ireland departments and how best that could be provided. Training and development have been wrapped up in that analysis

as well. We have a comprehensive programme for developing our capacity to more efficiently manage transactions, to do so in more consistent and common way across the NICS and to produce efficiency savings which will then play into the targets associated with Gershon.

Q28 Mr Pound: Anticipating me is no hard job, but anticipating Gershon is extremely impressive. I will be happy to put that on the record. Will there be a staff relocation of any significance?

Mr Hunter: The devolved administration was anxious to consider staff relocation. The economic drivers for it in the Northern Ireland context do not exist compared with Whitehall. There is clearly an efficiency saving to be derived from decentralising staff from expensive locations in London to out-of-London locations. The cost benefit analysis in terms of Northern Ireland does not come up with the same type of analysis and the cost of housing, office accommodation et cetera is much more consistent across Northern Ireland as a whole. There are political issues surrounding the dispersal of Civil Service jobs so that various parts of Northern Ireland have the benefit of stable Civil Service jobs. Relocation is not at the moment a driver associated with Gershon or associated with efficiency. Whenever new projects are initiated we look to see where they can be best located. The most recent example is my colleagues in DSD are aware of where a new pension centre was located in Londonderry in an effort to encourage a dispersal of some Civil Service jobs.

Q29 Mr Pound: It is a fairly obvious question, but we are talking about pretty tangible efficiency gains on a pretty large scale which affects in many ways the entire delivery of the service you provide. How can you ensure these will be accurately measured and verified?

Mr Hunter: That is a very good question. The Treasury have been looking at this particular issue with a view to developing performance indicators and obviously we want to draw their analysis when we come up with our own measures and I expect there to be a degree of commonality at least between ourselves and Treasury. At the present time, we have just received from departments their efficiency plans designed to realise the savings targets set through the Gershon process. We are looking carefully at those, and we will be aggregating them in terms of a statement that the Minister for Finance and Personnel is due to make around the end of September which will look at the priorities and budget for Northern Ireland over the three years covered by the 2004 spending review. That will be an opportunity to begin to harden up on precisely where the savings will be found, how much they will be and how we can then set in place frameworks to measure the achievements of those targets.

Mr Pound: I thank you for that. There is a certain element of wait and see about that. I understand, I felt the question had to be asked. Can I thank you very much, you have been very frank, very helpful and I am extremely appreciative.

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

Q30 Chairman: Could I clear up something that was said earlier on. When we were talking about the 2006 faster closing timescale, statutory deadlines for production and main accounts, you said that 31 July could prove difficult. In a letter previously sent to the Committee you declared your intention to follow the faster closing timetable as set out by HM Treasury. Which is the correct one? Do you have an intention to follow and meet the 31 July 2006 deadline or will you not meet it?

Mr Hunter: It is our aspiration to achieve that particular goal. As the accounting services programme unfolds, the deadline looks difficult, particularly across Northern Ireland departments as a whole.

Q31 Chairman: Are there any departments for whom it will be more difficult?

Mr Hunter: It is a question of establishing the new information system and then gathering the information department by department as it rolls out across the departments. We do not think we can introduce it in a big bang across all 11 departments at a single date. We are planning to introduce it on a phased basis.

Mr Thomson: I think the accounting services programme will certainly help in the production of faster accounts, and you need a proper accounting system if you are going to do that. It is not essential. You can—just by throwing manpower and doing work arounds—get the accounts out faster. The question we are going to have to face is, yes, we want to get the accounts out faster by 2006 but if we are towards the end of the implementation of a very major accounting system and I said earlier it is more than an IT system it is whole process change and everything else where is the best place to put resource? Is it getting the accounts out by the July 2006 deadline or is it getting the accounting services programme in? Are those mutually exclusive, I do not know. Those are the sorts of issues we need to address as we get nearer the time but certainly it is our aspiration to meet the fast approaching deadline.

Q32 Chairman: Are some departments more at risks than others of not meeting the deadline?

Mr Hunter: I think the old departments, while they have their own accounting systems at moment are based on a common platform. I think the problems are uniform across Northern Ireland departments are not particularly more prevalent than any other.

Q33 Chairman: Some departments are at risk of not meeting the deadline?

Mr Hunter: Yes.

Q34 Reverend Smyth: You are aware of course that the Northern Ireland Audit Office is supporting the issue of use of consultants by Northern Ireland departments and some £8.4 million was spent without a clearly defined business need. I think you will also be aware there are people in Northern Ireland who are wondering why we need so many consultants when we have the departments with the

staff to do some of these assessments. Why did you allow this to happen or was this not in your remit to check what was going on?

Mr Hunter: We certainly did not allow it to happen. If I could say by way of general introduction, that the employment of consultants covers a wide spectrum of activities. It is not just the financial appraisals associated with business decisions, although that is an important part. It would cover the provision of expert legal advice in particularly complex areas of law, which we would not have the resources in-house to provide. It would cover construction advice, engineering advice, designer buildings et cetera, where we do not have the in-house team and where we believe it would not be cost effective to employ an in-house team because of the peaks and troughs of work associated with that and indeed with other areas. It is not just financial appraisals that we have been engaging consultants on. We have systems dating back to 1995 in terms of procedures and processes which we expect departments to adhere to. The Audit Office found those systems and procedures were not being fully adhered to by departments and they identified weaknesses in respect of the business cases and other areas as well. We recognise the need to improve performance across the piece in respect of the engagement of consultants. We are developing new guidelines which are well advanced which will strengthen the current policies. The old policies will be updated to take into account developments in procurement, practice and policy. Clearly, we are anxious to encourage departments to use framework agreements where they are appropriate another weakness identified by the C&AG in his report. We will then want to monitor closely the department's implementation on those new updated strengthened guidelines.

Q35 Reverend Smyth: I understand what you said and we understand that there are times where you do need consultants for specific issues, but the allegation and clear decision was that there was no clear business need for them. I must confess a personal illustration recently with one of the subsidiaries of Invest Northern Ireland, a body that I am a Director of. We have gone through a consultancy process. I wondered what it was all about, the Directors also wanted to know what it was all about. I wonder what sort of check is being taken because you said you did not allow it to happen. How have you been policing the framework agreement that you have for consulting and for dealing with consultants?

Mr Hunter: May I just respond to an earlier point before I come on to that question. I think I am right in saying that the C&AG identified that business cases had not been made. The departments in question would argue that there was a business need and it was not properly documented. We, as a department, had not been monitoring closely department practices in respect of the engagement of consultants and with hindsight that was something we should have been looking more closely at. Indeed we should have been encouraging the corporate

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

services of departments to look more closely at it because I suspect what was happening was that staff down the line were commissioning consultancy exercises but without reference to those at the centre of the department who could give them advice on the processes and procedures to be followed.

Mr Thomson: If I could add three specifics. I think following the Northern Ireland audit office report, the Minister for Finances wrote to his ministerial colleagues to draw attention to it and some of the issues that were arising. The head of civil service has also written to Permanent Secretary colleagues flagging up some of issues. DFP is revising the guidance on consultancy, so we are addressing the issues that were flagged up in the report.

Reverend Smyth: Indeed we look forward to seeing it implemented in the coming days.

Chairman: We started directing our questions more towards the DSD. I wonder if I could ask Adrian Bailey to start those.

Q36 Mr Bailey: The Northern Ireland Audit Office qualified the department's accounts for both 2001–02 and 2002–03 on the basis of a number of serious significant failings. No other department received such a severe qualification in 2002–03. Why has there been so little progress in the preceding financial year? What went wrong in 2002–03?

Mr Shannon: Can I say that being in the position of disclaimer is not a comfortable position to be in. We do not wish to be in this position any longer than we can possibly be. I can assure you that we are spending a great deal of time and effort at the moment to try and get out of that particular situation. In order to explain what has been going on, I need to divide the question up into three parts and I know you will want me to be brief, so I promise I will not go on for too long on each of them. The department essentially has got three key areas here: social security and child support, housing and urban regeneration and community development. The problems are different in each of those, which is why I need to take them separately. First of all, social security and it is important, I think, to put some context on this. We are paying out two billion pounds a year or so in benefits and as a matter of policy, we have a body of legislation which is very complicated and very difficult to administer. We are doing all of this with computer systems which were largely designed and introduced in the late 1980's and early 1990's and which are tied into a UK wide computer system. So against that background we are struggling to make inroads. We will never achieve perfection, but I think there is room for significant improvement and I am glad to be able to report that we do see signs of improvement in this area. The figures for 2003–04 for Income Support, Jobseekers Allowance, Disability Living Allowance and Housing Benefits are all showing improvements in payment accuracy. Much of this is a result of a range of measures which have been taking place which I can go into more detail later on. Further improvements may be contingent on improving computer systems and again, there are plans nationally to do that and we are currently

negotiating the necessary budget support to enable us to buy into those schemes in the next two or three years. That is the story on social security in brief. Regarding housing, several years ago, housing associations were given the role of building the new build social housing and the department at the time set up a series of controls and I think it would be fair to describe them as light touch control. The system ran on that basis for two or three years until the first year that we are talking about here, 2001–02—when the Northern Ireland Audit Office assumed statutory responsibility for that audit. The Audit Office took a different view than we did at the time, of the nature of control which was appropriate. The criticisms which you have seen in the report are effectively saying; “we think the department needs to exercise a greater degree of control than it chose to do”. That criticism was brought to our attention halfway through 2002–03 year. By the time we took a series of measures, we were into the second set of accounts as well. I am glad to be able to report that my understanding is that the auditors are greatly encouraged by their current work and I am optimistic that if we are not out of the woods on this particular issue this year, certainly we will be next year. Thirdly, urban regeneration and community development. This is a much more difficult area for me to get to grips with. We have had problems in this area for many years and the fundamental problem, I think, is that there is a tension between providing funding to a sector which consists of community and voluntary groups which are very often small, unsophisticated financially and unaccustomed to the sort of bureaucratic process that government departments tend to impose on them. I think for our part we have been deficient in defining what is proportionate and ensuring that where we applied strict controls, we did so effectively. There is a history of criticism in this area, corrective action which has not produced the desired result, further criticism and further corrective action and we have taken some quite stringent measures in the last couple of years. We were hoping to see the fruits of that coming through this year. We are a little disappointed that it has not been coming through as obviously as we had hoped and we have taken some further measures. I am afraid I have to report that I do not think we will be out of woods this year on that particular front, but I can assure you that we are working vigorously. Personally, I am committed to ensuring that it will improve in the next few years. Sorry, that was a rather long answer.

Q37 Mr Bailey: Can I just take from it one or two points. I do not want to put words into your mouth. If I have summarised it incorrectly, please say so. You are saying, in effect, the problems in the 2001–02 account were not evident until halfway through the following financial year.

Mr Shannon: On housing, yes.

Q38 Mr Bailey: What sort of proportion of the total problem, if you like, did housing comprise?

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

Mr Baker: To put it in financial terms, the qualification in relation to housing is related to the new build programme. We are talking about a relatively small proportion of the department's overall spend, £50 million in that kind of ball park. Urban regeneration spends a slightly smaller amount, £40–45 million, but obviously that is dwarfed by spending on social security, which is over two billion pounds in total. The housing association spend is £50 million, out of over two billion.

Q39 Mr Bailey: Equally, were you aware of problems in the other sectors prior to that?

Mr Shannon: As far as social security is concerned, there was a sort of implication in the wording of some of the documentation, that this was a problem of the last two years and a problem associated with resource accounting. The Social security accounts have been the subject of qualification for a very long time, not just in Northern Ireland but in Great Britain as well. It is a measure of the complexities and the difficulty of getting accurate decision making there to a level which is acceptable. Yes we were aware of the problems in that area and that is a continuous process of improving. In the other area, urban redevelopment, again yes, we were aware of longstanding problems in this area and, of course, we are not actually reliant on the external auditors to bring these issues to our attention, we have a well developed internal audit programme and we have regular management reports which are drawing our attention to problems in the normal course of problem management activity.

Mr Baker: As Mr Shannon says, the problems associated with fraud and error in social security go back over a long time and had nothing to do with resource accounting. There were particular issues, problems identified by the Comptroller and Auditor General, which did occur probably as a direct consequence of the introduction of resource accounting. For the first time as a department, like others, we have to produce a balance sheet and some of our systems were based on cash accounting and they did not read across easily to the new accruals form of accounting, so debtor and creditor balances created particular difficulties for us in the context of resource accounting.

Q40 Mr Bailey: When the scale of the problem became evident, what steps did you take? From your own admission, whatever you did do was not totally successful. What steps did you take and why were they not successful?

Mr Shannon: Would you like me to go through each of the business areas on that front? I am happy to do that and tackle it on each of the business areas.

Q41 Mr Bailey: Yes, just briefly.

Mr Shannon: Social security; we have now in each benefit branch a programme called Programme Protection Plan and each branch is required to implement such a plan consistently with all other branches. During the year 2003–04, this exemplified itself. I will give you three areas where they have actually borne fruit. First of all, we took out 9,000

Income Support and Jobseekers Allowance cases and checked them before payment was made. That was not previously the normal procedure. We found 1,300 of these cases needed correction. These were new cases going in to the system. During the same period, to correct errors already in the system, we looked at 67,000 Income Support, Job Seekers Allowance, Disability Living Allowance and Incapacity Benefit Cases, and in this case 6,000 of these were corrected as a result of the change in the amount of benefit paid, totalling £5.2 million. Thirdly, we carried out 7,700 fraud investigations and, as a result of these investigations over 3,900 cases had their benefits adjusted, 345 cases were referred for prosecution and 191 cases were successfully prosecuted. That is a small insight into the kind of measures which we are currently pursuing.

Mr Shannon: Shall I move on to the other areas?

Q42 Chairman: Yes, please do.

Mr Shannon: On housing, previously the housing associations have been required to simply certify to us that they had taken certain steps and then payments would flow from that. The auditors said no, we should have evidence based certifications; we introduced that in February 2003. Secondly, in the course of audit, the auditors have identified a number of best practises in different housing associations. We then picked those up and sought to apply those to all the other associations as well. We have produced a housing association technical guide, which will provide each housing association with the correct processes and procedures which we require. Finally, we adjusted and expanded the role of our departmental inspection teams and carried out many more inspections than we did previously. Finally, on the urban development side, I have a list of about 15 or 20 things that happened, I will just focus on a small number of them. The directorate concerned has set up a group management board and introduced a corporate governance framework for its activities. A unit has been established to provide advice and guidance on compliance. A risk management system has been put in. Business support units have been established in each directorate. A quality assurance and improvement unit has been set up. Pre-approval checking by an independent review panel before any payments are made has been introduced, with a new computerised database for voluntary bodies and public funding of them so as to reduce the risk of double funding or more than double funding from other funders. We have brought in a senior member of the Audit Office to work with us, to try and help us implement the recommendations and we have appointed a group financial comptroller, who has just taken up appointment last month. Those are the sorts of things we have been doing.

Q43 Mr Bailey: Thank you. Even allowing for those actions when the 2002–03 accounts went wrong you are not that confident, I think it is fair to say, that

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

next year's accounts will be significantly better. Do you expect the 2003–04 accounts to be qualified again?

Mr Shannon: I expect the situation in housing to be dramatically improved. We were hoping that this year the qualification would be completely removed on housing. However, we have not yet received a formal report from the Audit Office. I understand there may have been some difficulties in some of the smaller housing associations which have not yet caught up with the new dispensation, so we may not get out of the woods this year on housing but I am pretty confident that we will next year. On social security, I do not know what the auditors would expect from us before they would remove the qualification there but I can say we have got some very encouraging trends on social security. I can give you some figures if you like? The trends are all the right way and I think the auditors will be acknowledging that when we come to see the report. The one area that I am still worried about is the urban regeneration one. We have been monitoring it very closely. We had quite a lengthy and detailed report from our internal auditor at the mid-year Audit Committee which I chair. We were not happy with what we heard and following that we have taken some additional measures. I have visited during the past six months each of the offices, concerned myself and talked to the staff about these issues. I sent out a note in July to each member of staff, telling each person that we were not prepared to accept this level of failure in what were fairly basic procedures. My colleague who is in charge of that directorate has written to each of the senior managers and has imposed a series of new measures requiring each head of a branch to give him a monthly personal certified guarantee that a range of checks have been carried out. Among other things, we have transferred also a number of members of staff and refreshed the staff in some of those offices. I cannot promise that we are at the end of that road but we are doing a great deal to improve the situation.

Q44 Mr Bailey: I believe Mr John Dallat has criticised you in the Irish news and said you should have learned from past mistakes. What would be your response to that?

Mr Shannon: He was referring, I think, to the Irish news' report of £120 million worth of fraud and error which we reported. I think the story there is of course, as I said earlier, £120 million is a lot of money which could be well spent on other things. It is £120 million against a budget of £2 billion, it is a sort of 6% error rate, and it was about the same the previous year. We are not happy with that. We know what the problems are and we are working hard to improve on that performance. Perhaps this is the right moment to quote some figures. In 2002–03, the income support fraud and error amount was £37.5 million—this is the composition of the £120 million figure I mentioned—£37.5 million that year, last year £25.1 million, a substantial reduction. Job Seekers Allowance in the year in question £11.9 million, last year £7.9 million. Housing Benefit £27.9

million, last year down to £8.4 million. Those are dramatic reductions. I need to be fair though, we are not entirely comparing like with like because some of the figures which composed the £120 million included suspected fraud and we have made a change to the formula to bring us into line with the rest of Great Britain by setting aside suspected fraud from those figures. Even allowing for the suspected fraud the trend is still very much in the direction we want.

Q45 Chairman: You have given answers to one or two of our questions already so as a consequence maybe one of two of our members may reduce their questions. Can I just ask a general question and that is that you have told us quite a lot about your intentions as to how you are going to improve matters. You informed us of the new practises being put in place to prevent repetition but in the criticism of that £120.9 million error, that is 6% of the budget, it has been suggested that you have never said why your fraud and error levels were running at 6%. In layman's terms, could you say why £120.9 million fraud was allowed?

Mr Shannon: Perhaps in that area it is best to talk about the breakdown between fraud and error.

Q46 Chairman: If it helps there is a lot of talk about Disability Allowance that it was more error than fraud but irrespective of whether it was error and fraud and irrespective of what we have done since to change the policies, why was 6% of the budget wasted on fraud and error and why was it not picked up? Who was responsible for not picking that up?

Mr Shannon: We are operating a significant number. We run something like 35 benefits, each one of those benefits is extremely complex. That is not a criticism of anybody or anything, it is complex because as a matter of policy, Parliament has preferred to run, by and large, the benefit schemes which are tailored to the needs of the individual and therefore the individual's personal circumstances are critical to the benefit level and whether or not benefit is awarded, therefore, there is a substantial collection of information task. There is then a judgment to be made and getting that right. There is then the internal processes about implementing the right decision and there is then the problem of constant review because individual circumstances change and it is incumbent on us to ensure that if those circumstances change we have systems which bring that to our attention. Then, on top of that, there is the issue of fraud and inevitably there are some of our customers—thankfully not a high proportion but they are some of our customers—who are intent on defrauding the public purse and we have therefore to be vigilant to that as well. All of those things make this a very difficult set of schemes to administer.

Q47 Chairman: I think they would be common amongst all the departments across the UK. Why was a level of 6% of your budget taken up with error and fraud and who was responsible for not monitoring?

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

Mr Shannon: I do not think our figures are sufficiently refined to be able to break it down in that particular way. What we can break it down into is frauds and errors and other areas, Derek, can you add anything to that?

Mr Baker: No. I do not think so. If you are looking for an explanation as to why fraud and error occurs, I can give you that?

Q48 Chairman: No, not why fraud and error occurs in all departments across the UK, I am asking why the level of fraud and error is 6% in a £2 billion budget, £120 million was so high, why was that not monitored and who is responsible for not monitoring?

Mr Baker: Taking the second part of your question first. It is monitored, it is monitored by a continuous programme of benefit reviews which is carried out by the social security agency on all of its benefits. Obviously we generate these figures ourselves on fraud and error so we do monitor them closely. In the light of what the benefit reviews reveal in terms of weaknesses in the system, programmes are put in place and action is taken. I think that is why the levels of fraud and error are coming down between 2002–03 and 2003–04. The trends are in the right direction as the staff in the Social Security Agency get more sophisticated and get more adept at tackling both fraud and error and as we put better systems in place. I do not think it was ever the case of not monitoring this. It is not a plea in mitigation, but I think you will find that the levels of fraud and error in social security are fairly similar in Great Britain in the Department for Work and Pensions as they are in the Social Security Agency. It is not a problem unique to Northern Ireland. It is a very complex business, we are trying to get to grips with it and we are moving in the right direction as a consequence of our own monitoring of the problem.

Q49 Chairman: I am sorry to keep pressing you but I am grateful to you in terms of telling us that you have identified what went wrong and you are going to correct it. Having identified what went wrong you must be able in layman's terms to be able to tell us where the faults were? Was it lack of staff training? Was it incompetence in terms of the way the claims were processed? Was it poor management performance in terms of not monitoring the levels of fraud and not taking action sooner? That is the type of explanation I am looking for when I talk about in layman's terms a reason why fraud at 6% was so high.

Mr Shannon: Can I come back in again. In terms of the Income Support and Job Seekers Allowance I think there was no particular problem that went wrong in that particular year, that is a question of bearing down on the issues over a protracted period. There was a problem with the Housing Allowance which shot up that year out of proportion with previous years and subsequent performance. That is the one that is administered by the Housing Executive on our behalf. Our assessment there is for various reasons the Housing Executive found itself that year with a substantial number—I am talking

300 odd—300 inexperienced, casual, temporary staff and there were clear problems that year. That has been corrected and our latest information is, I think, that the figures on that have come down very substantially, down to 2.3%; the error rate down from 10.4, so good news there.

Q50 Chairman: This is the level of explanation that we were looking for. We now know that the substantial amount of that fraud in respect of housing benefit was due to the fact that there were a lot of inexperienced casual staff working in the department that were assessing the claims?

Mr Shannon: Yes

Q51 Chairman: Why?

Mr Baker: I do not have an answer to that specific question. I am sorry, I would have to come back to you on that and get that explanation from the Housing Executive.

Q52 Mr Pound: The situation where you have very large numbers of temporary staff, was this at Christmas? Was this at a time of staff shortages and was there any external factor?

Mr Baker: I cannot answer that, Chairman, I would be purely speculating. Earlier, you asked why is fraud and error occurring and is it down to poor management, is it down to poor training, is it down to inexperienced staff. I think, in truth, all of those answers are in part correct and I think the benefit review process highlights that. I think it shows that staff on the frontline who were receiving the benefits applications and who were taking the decisions on whether to allow benefits or not, in many cases needed more training. That is part of the response of the Social Security Agency, to improve its training. I think the benefit reviews also show that perhaps the level of checking needed to be increased. Mr Shannon gave some statistics earlier about the degree of intervention, both at the front end and actually during benefits payments to look at those things. All of those things collectively need to be done and always need to be done. Bear in mind, we are dealing with between 200,000 and 300,000 fresh claims for all benefits every year and it is a constant process that we need to work at. We need to attack it on all of these fronts continually. I do not think you can put it down to one thing.

Q53 Chairman: I am very grateful, Mr Baker, to you for saying that it was lack of training, staff shortages and perhaps staff incompetence because of the casual nature of their employment. I think that is the answer that people want.

Mr Baker: Indeed, and the propensity of some members of the public to be intent on defrauding the system, we need to address that too.

Mr Shannon: Sometimes when we come to discuss audit reports, we tend to talk a great deal about systems and processes because that is what auditors tend to talk about. That, as I think you are coming around to saying to us, is only part of the story. We can have perfect processes, but unless the people

8 September 2004 Mr John Hunter, Mr David Thomson, Mr Alan Shannon, Mr Derek Baker and Mr John Deery

who are operating those processes are operating effectively, they will not work and that is the management challenge we face.

Chairman: It is quite late in the day, so I am going to ask my colleagues who have questions whether or not they are content or if there are still parts of their questions they want to ask?

Q54 Mr Luke: You spoke about the formula that you were introducing to reduce the level of fraud and error. Previously, you told the committee in correspondence that changes would be made in the methodology used to calculate progress towards the reduction of fraud and error and these would be introduced in April of this year. Have these formulas that you have been referring to—these changes, this methodology—been introduced? Could you enlighten us as to whether these changes have been introduced and what impact they have had?

Mr Shannon: I got a little bit confused about this myself when I was being briefed about it. There are two formula changes, and one is not really a formula change. The formula change in reporting was the one which took out suspected fraud from the estimates and that applied last year. I think the point of your question is about a change in the way we disaggregate our targets. Our PSA target is for a 5% reduction, but previously, I think, that had not made its way in any meaningful way into the day-to-day operations of a branch or of any individual, so the change that was introduced in April of this year was to disaggregate all of that down to district level. We are setting targets now at district level, office level, manager level and individual staff level. It started in April and it is too early to say what impact it will have, but we are hopeful.

Q55 Mr Luke: That was the methodology you talked about to aim for the 5% reduction?

Mr Shannon: Yes

Chairman: Mark Tami, Housing Benefit.

Mr Tami: I think you have probably asked the questions that I was going to ask. I do not think you necessarily got the answers, but at least you have asked the questions.

Q56 Chairman: Gentlemen, I have got two very quick questions on the Child Support Agency. We could have a whole session on the Child Support Agency, I am sure, but the Committee was told in correspondence during 2003–04 that the agency embarked on a number of initiatives to improve the

quality and accuracy. Are you content with the implementation and the outcome of those initiatives?

Mr Shannon: I am pretty pleased with the performance there, if measured in that sense. I have got some statistics here. The measure which they use is the last decision made for all assessments and checked to be correct to the last penny. You must remember that they are running two schemes—the old one and the new one. In the old scheme, the performance in 2001–02 was 81.9%, it improved the following year to 85.5% and last year it was 91.8%, which exceeds the ministerial target and is better than performance elsewhere in Great Britain. On the new scheme the target—in its first year of operation—was 90% and the accuracy rate was 92%. Again this was better than the performance in Great Britain. By those measures I think we are doing rather well. The problem, which you probably will know from the GB experience, is that the computer system has not been operating to our satisfaction. The cases which have gone through the computer system successfully have been going very well; the problem is the ones that have not been. That is another story.

Q57 Chairman: Can I just make a plea that in our satisfaction that the new system is working slightly better than the old system, which is hardly an achievement given the ineffectiveness of the old system, that we do not forget those calculations that still need to be done in respect of the old system and the frustration that is caused to those who still have to have their cases accessed that way. I know that is a major complaint with all Members, that with the new system, fine, we are getting there, but as far as the old system is concerned it seems everybody has left the ship and there is not the concentration there should be?

Mr Shannon: I would have to challenge that. We continue to devote considerable effort to the old scheme and then there comes a point at which we migrate the old scheme to the new scheme. We are not yet at that point, but we would like to get to that point as soon as we can.

Chairman: Also, we would share that aspiration. Are there any other questions that the members might want to ask? Gentlemen, thank you for being so candid and honest. I know it is a difficult session for you because the performance of your departments has been weak and we do look forward to improvements that have been suggested. We hope that when we next see you—next year—the ride is a little bit more comfortable.

APPENDIX 1

Letter to Ian Pearson MP, Parliamentary Under-Secretary of State, Northern Ireland Office from Rt Hon Michael Mates MP, Chairman of the Committee

SCRUTINY OF NORTHERN IRELAND DEPARTMENTS' ACCOUNTS

The Northern Ireland Affairs Sub-Committee took evidence from officials about Northern Ireland Departments' Accounts on 8 September. While grateful for officials' efforts to address our concerns, we remain concerned about a number of important points on which I am writing to seek clarification.

DEPARTMENT OF FINANCE AND PERSONNEL (DFP)
Resource Accounts and Financial Management

Following concerns raised in a report by the Comptroller and Auditor General for Northern Ireland (C&AGNI), the Committee asked about the extremely high proportion of accounts which have received a negative audit opinion recently (10 in 2001–02 and seven in 2002–03 out of 17 departments) and why departments' financial management had not shown more significant signs of improvement.¹ We were told that poor performance was due to "a lack of financial skills, difficulties over management information systems, and . . . the introduction of the devolved administration that coincided with the preparations for resource accounting". [Q1] We were surprised by this response given that departments must have been aware of both devolution and resource accounting requirements well before their implementation. We also understand that Northern Ireland departments had the advantage of a "dry run" prior to the full implementation of resource accounting. [Q3] It appears from the C&AGNI's report, that departments were particularly ill prepared for the increased financial management required by resource accounting, as only two of the seven qualified accounts in 2002–03 would have received a negative audit opinion under the cash based system of accounting.² Poor performance has been exacerbated by the lack of a resource based accounting system, which has meant increased manual effort to produce accounts at the year end. We would be grateful for a detailed explanation of why these problems arose in Northern Ireland and the steps that have been taken to ensure that future departmental financial management and performance will improve.

Accounting Services Programme

We understand that the Treasury's programme called "faster closing" which is designed to accelerate the publication of resource accounts will bring forward to before the 2006 recess the date for the production and laying before the House of Commons of all 2005–06 accounts, and that DFP is seeking to adhere to this timetable. We were told by Northern Ireland officials that a new accounting system, the Accounting Services Programme (ASP), is being developed currently for implementation across all Northern Ireland departments. This appears sensible as the production of resource accounts was hampered by the lack of an appropriate resource based accounting system, and success in meeting the "faster closing" timetable will depend in large measure on the creation of a much better financial management system than is available at present [Q19].

However, a problem is apparent in reconciling the aspirations of DFP to meet the Treasury timetable for "faster closing" in July 2006 with the timetable for the completion of the ASP which is March 2008. Mr Hunter, the Permanent Secretary of DFP, explained that "establishing . . . and rolling out the new management information system . . . will take from April 2006 through to March 2008", but that it remained DFP's "aspiration" to meet the "faster closing" deadline of 2006.[Q30] In these circumstances, it is difficult to understand how meeting the 2006 deadline can be a realistic aspiration, and elsewhere in his evidence to us Mr Hunter appeared to cast doubt that it could be met. [Q19]

We are concerned not only that the date for "faster closing" of Northern Ireland departmental accounts appears most unlikely to be met, but that the focus upon ASP which will deliver enhanced financial management information fully only after 2008, may very well detract from departments' efforts to improve the present poor position in the intervening years resulting in continuing high levels of negative audit opinions. We would find it helpful to have a note setting out how these timetabling pressures will be managed and, in particular, how the DFP aims to meet the Treasury's "faster closing" deadline will be achieved; what resources will be devoted to overcome the continued problems with financial reporting in the period until ASP is fully operational in 2008 and what approach will be adopted; and whether the ASP project is progressing according to DFP's timetable.

Efficiency Review Targets

The Sub committee was interested to learn how Northern Ireland departments intended to meet the efficiency savings recommended in Sir Peter Gershon's review.[Q27] Whilst we were pleased to learn that departments had efficiency plans in place, it remains unclear how any efficiency savings are to be accurately measured or verified. Without such assurance, departments are unlikely to demonstrate transparently and convincingly that efficiency targets have been met. It would be useful if you could provide a note setting out details of how efficiency savings will be verified and measured.

Use of Consultants

The Committee was troubled by the conclusions of a Northern Ireland Audit Office (NIAO) report that some £8.4 million had been spent on consultants without a proper business case, and that the variable standard of data provided to DFP meant that its monitoring was limited.³ Mr Hunter was frank about the Department's shortcomings: "We . . . had not been monitoring closely department practices in respect of

¹ General Report by the Comptroller and Auditor General for Northern Ireland, *Financial Auditing and Reporting: 2002–03*, HC673, Session 2002–04.

² HC673, p 7, paras 6 and 7.

³ Northern Ireland Audit Office, *Use of Consultants by Northern Ireland Departments*, 2003–04, HC 641, p 11, para 13.

the engagement of consultants and with hindsight that was something that we should have been looking more closely at.” [Q35]. The Committee would find it helpful if you could provide reassurance that the monitoring of consultants is now being conducted properly, and provide an outline of the new procedures which have been put in place to achieve this.

DEPARTMENT FOR SOCIAL DEVELOPMENT (DSD)

Disclaimer Audit Opinion in 2001–02 and 2002–03

The Sub committee was particularly concerned to note DSD’s second consecutive adverse audit opinion in 2002–03 resulted from the same failings as were noted in 2001–02. Significant fraud and error were the principle causes of the negative audit reports, and it seemed to us, therefore, that there has been a sustained failure to address these important failings with sufficient urgency. Mr Shannon, Permanent Secretary of DSD, assured us that the Department was now “working vigorously” to reduce fraud and error, but evidently these efforts have yet to be audited. [Qq36,43] We would be grateful for a comprehensive list of actions taken in 2002–03 and 2003–04 to tackle these problems, and an estimate of their likely impact.

Reasons for Fraud and Error

In addition to the point above, the Sub committee wanted to know why high levels of fraud and error persisted, totalling some £120.9 million in 2002–03, 7.6% of the expenditure on Income Support, Jobseeker’s Allowance, Disability Living Allowance, and Housing Benefit. We were disconcerted to hear officials explain this figure as the product of “a complex business” which was “not unique to Northern Ireland.” [Q48]. After considerable probing, the Sub committee was told that “poor management”, “poor training”, and “inexperienced staff” had contributed to the problem. This was exacerbated by a “substantial number . . . 300 odd” of poorly trained “casual, temporary staff” hired by the Housing Executive. [Qq49,Q 52]

It seems astonishing that any department would employ large numbers of poorly trained and badly managed temporary staff in order to process benefits claims, and officials unfortunately were not in a position when giving evidence to the Sub committee on 8 September to provide detailed reasons why staff of poor calibre were recruited. We would appreciate a detailed note on the background to what was clearly an entirely unacceptable situation. We would also like the Department to explain why this problem was not identified before fraud and error had reached high levels, and what reassurance there is that this situation will not recur.

Child Support Agency

The Committee was also interested in whether the corrective steps taken to improve the “quality and accuracy” of the Child Support Agency’s payments had worked. We were reassured to hear that performance had improved on the new scheme, but were disappointed to learn that the old scheme persists (although we acknowledge that performance in that scheme has improved recently). [Q56] It would be helpful to have a note setting out the timetable for the migration of the old schemes to the new system, and an indication of the milestones which have been put in place to achieve that goal.

14 October 2004

APPENDIX 2

Letter from Ian Pearson MP, Parliamentary Under-Secretary of State, Northern Ireland Office to Rt Hon Michael Mates MP, the Chairman of the Committee

Thank you for your letter of 14 October in which you requested clarification of a number of points arising from evidence given to the committee on 8 September.

DEPARTMENT OF FINANCE AND PERSONNEL

Resource Accounts and Financial Management

I would agree that, in the initial years of resource accounting, there were a relatively high proportion of qualified audit opinions on the resource accounts of the Northern Ireland Department. However I would point out that there has been a significant improvement in this area from the first year of published resource accounts in 2001–02 to the accounts for 2003–04.

There are two main reasons for the relatively high proportion of NI Departments with qualified accounts:

- (a) Lack of dry runs.

In Northern Ireland resource accounts replaced appropriation accounts in 2001–02 following one dry run year in 2000–01. This contrasts with Great Britain where there was an unpublished dry run in 1998–99 followed by two more years (1999–2000 and 2000–01) where resource accounts were published alongside appropriation accounts. Therefore Great Britain had an additional two years to prepare for the introduction of resource accounts compared to Northern Ireland.

The reason for only having one dry-run year in Northern Ireland was because the introduction of resource accounts coincided with devolution when six Departments were expanded to 11 new Departments. This involved considerable upheaval in reallocating budgets, programmes and assets etc in a short timescale. The draft financial statement and especially the balance sheets of the original six departments which were being drawn up, were no longer relevant and the new departments had to start again in pulling together draft accounts. Accounting systems also had to be changed and this significantly disrupted the work on resource accounting. Therefore the Departments missed out on two years of parallel running and were effectively two years behind Great Britain in terms of experience of resource accounts. This lack of experience contributed to the relatively high number of qualified audit opinions in Northern Ireland.

As further experience has been gained and procedures have settled down the number of qualifications has fallen from 10 in 2001–02 to four in the 2003–04 resource accounts that have recently been published.

(b) Lack of sufficient numbers of staff with financial skills.

In common with GB departments, NI recognised the need to enhance the skills of finance staff and recruit additional accountants. The larger number of departments, each requiring financial advice, added to this requirement.

When resource accounting was introduced in 2001–02 it was clear that, despite the preparations, some Departments did not have enough staff with the financial skills necessary to prepare sufficiently robust resource accounts. This has been addressed in the past few years as more accountants have joined the Northern Ireland Civil Service from the private sector. A financial skills strategy is now in place to improve the financial skills of the staff currently working in the finance branches of Departments.

In summary, there has been a continuous pattern of improvement in the quality of the resource accounts presented to the C&AG, largely as a result of increased experience of the new requirements and an improvement in the financial skills of staff in the Departments. This is evident in the number of qualified audit opinions, which has fallen from 10 in 2001–02 to seven in 2002–03 and now to just four in the resource accounts that have recently been published for 2003–04. Of the four accounts that have been qualified in 2003–04, two would have been qualified anyway under appropriation accounting rules and the other two have been qualified because of the introduction of a new accounting standard in 2003–04 and are unlikely to be qualified in future years.

ACCOUNTING SERVICES PROGRAMME

HM Treasury has instituted a faster closing initiative in the last couple of years where the objective is to have all resource accounts signed by the C&AG and laid before the summer recess.

In Great Britain this will be a considerable advance on the current position whereby accounts have to be laid by 31 January of the following year. In Northern Ireland, accounts must be laid by 15 November following the year-end which is already over two months earlier than in Great Britain. It is certainly our objective to meet the Treasury deadline of faster closing by 2006, if at all possible.

HM Treasury, and the National Audit Office, have produced guidance for departments in meeting this deadline, and both recognise that modern accrual based accounting systems and processes will be of great benefit. They are not essential, but to produce accounts in this timeframe without such systems requires a considerable amount of resource.

That is raising a significant management challenge for DFP and departments. It is the intention to begin implementation of the new Accounting Services Programme during 2006 and this in itself will require a considerable resource input. That project offers the potential for significant improvements in financial management and greater efficiencies. The challenge facing us is determining the extent to which allocating extra resources to enable us to meet the 2006 deadline for faster closing will adversely impact on the implementation of the Accounting Services Programme and to what degree we can minimise the risks in both projects.

I note your comment on the “continuing high levels of negative audit opinions”. As outlined above considerable progress has been made to reducing the level of qualified audit opinions and it is anticipated that this progress will continue up to the introduction of the ASP systems in 2008 as a result of further experience, improved financial skills etc.

The ASP project continues to proceed according to the timetable outlined by DFP. A successful bidder will be chosen in March 2005 and will then have a year to work alongside departments to fully develop the system. On current plans departments will progressively migrate to the new system from April 2006.

EFFICIENCY REVIEW TARGETS

As with Whitehall Departments, Northern Ireland Departments will be producing Efficiency Technical Notes (ETNs), which will provide specific and quantified information on the actions Departments will take over the next three years to ensure delivery of the efficiency gains published in the draft Priorities and Budget document. The Notes will provide clarity about how the gains are to be measured and delivered, with a strong focus on ensuring clear performance measurement methodologies. ETNs will be published for all departments by the end of January 2005, following a process of scrutiny and validation. Consistent with the approach in Whitehall, the Northern Ireland Audit Office (NIAO) will participate in the scrutiny of proposed departmental ETNs before publication.

USE OF CONSULTANTS

Revised guidelines for the use of consultants are being finalised by DFP and will be issued to Departments before the end of this year.

The Central Procurement Division (CPD) of DFP has now taken responsibility for the maintenance of a database of all consultancy assignments it arranges for Departments or for those that Departments arrange using the CPD framework. This should cover virtually all consultancy work within the NI Civil Service.

DEPARTMENT FOR SOCIAL DEVELOPMENT

I have also consulted with colleagues in the Department for Social Development and have obtained the following replies in relation to your questions on that Department.

DISCLAIMER AUDIT OPINION IN 2001–02 AND 2002–03

During 2002–03 the Social Security Agency undertook a comprehensive review of its Benefit Security Strategy. The review confirmed that the Agency was doing the right things but concluded that it could improve the way they were done.

To underpin the strategy the Agency took the following steps in 2002–03 to reduce the levels of fraud and error:

- introduced new procedures for the allocation of National Insurance Numbers to provide a greater degree of security and confidence in the process;
- carried out a detailed analysis of the causes of official error to improve accuracy and quality of decision making;
- worked alongside staff from the Benefit Fraud Inspectorate (in the Department for Work and Pensions) to carry out an inspection of Income Support and Jobseekers Allowance;
- introduced Fraud Liaison Officers into all districts and divisions to ensure a better co-ordinated and more effective approach to the reporting and prevention of fraud;
- produced a Code of Practice that governed the use of powers contained within the Fraud Act;
- introduced and evaluated a successful pilot exercise to improve the quality of decision making in cases where couples living together claim benefit as single individuals;
- participated in the newly created Joint Shadow Economy Team alongside staff from the Inland Revenue and Customs and Excise in investigating matters of joint interest;
- created a Departmental Data Sharing catalogue that lists all available datamatching opportunities and started work on creating the legal gateway for other potential datamatches; and
- set up a lost order book validation service to provide a central point of contact for post offices and social security offices.

In 2003–04 the Agency took the following additional actions:

- created a new team to provide increased support for centralised benefits (such as Disability Living Allowance and Carers Allowance) to help them make inroads on reducing fraud and error;
- introduced a team of Programme Protection Accuracy Officers to ensure Pension Credit is being paid correctly;
- within Programme Protection Plans (which all Benefit Managers signed up to) introduced an improved ratio of savings to be achieved against every £1 of costs to provide better evidence of value for money;
- made changes within Benefit Investigation Services to provide new opportunities for fraud instigators to make increased use of the Social Security Fraud Act;
- protected the gateway to benefit by continuing to vet applications for National Insurance Numbers thus preventing the processing of fraudulent claims;

- worked with the Post Office to prevent incorrect encashment of giro and order books;
- introduced improved procedures for the replacement of girocheques; and
- introduced new procedures for investigating cases where customers are living together and claiming as single individuals (following the successful pilot in 2002–03).

The combined levels of fraud and error in Income Support and Jobseekers Allowance reduced from 5.7% in 2002–03 to 5.6% in 2003–04. Early estimates from the latest benefit review findings would indicate that the initiatives taken by the Agency are continuing to impact on the levels of fraud and error, which have been further reduced to 5.1%.

In relation to Housing Benefit (HB), during 2002–03 the Northern Ireland Housing Executive (NIHE) was committed to developing and maintaining effective controls to minimise the risk of Housing Benefit fraud and to ensuring if it did occur, it was detected and appropriate action taken to deal with it.

Through a range of measures introduced under the Housing Benefit Security Strategy the Housing Executive has undertaken several initiatives, by targeting particular claims, to determine the level of fraud in certain tenure groups.

The organisation has put in place arrangements and a process for identifying and detecting benefit related fraud. The process describes the working methods used to establish whether fraud exists in cases and, if so, ensures that it is referred to the designated fraud officers and to the Benefit Investigation Unit in the Social Security Agency.

Other initiatives were:

- Providing HB data to the Housing Benefit Matching Service (HBMS) for matching against a variety of other databases in order to identify potential fraud or error;
- Investigating reports produced by the National Fraud Initiative, which emanates from the Audit Commission, in particular the Occupational Pensions report, which provides a match between Pensions declared for HB purposes and the pension payment records of providers;
- Data matching between the Rates Collection Agency Housing Benefit records and the Housing Executive's Housing Benefit records with results being investigated under headings such as duplication of claims and undeclared property assets for an additional dwelling;
- Data matching with the Child Support Agency;
- Data matching against the Housing Executive Payroll System;
- Income Support/Job Seekers Allowance Housing Benefit claim file matched against the Social Security Agency Income Support/Job Seekers Allowance claimants, file to identify any inconsistencies;
- Linking up House Sales information to Housing Benefit information;
- Fraud awareness training programme for all District Offices;
- HBMS were asked to do a National Insurance Number scan to validate all National Insurance Numbers held on record, essential to the accurate and smooth running of any form of data matching exercise with HBMS and other agencies; and
- A study of the working relationship between the Housing Executive and Social Security Agency's Benefits Investigation Unit was undertaken.

In 2003–04 the NI Housing Executive took the following additional actions:

- The adoption of the Public Service Agreement to reduce fraud and error in Housing Benefit by 25% by the year 2006;
- A Fraud Awareness programme;
- A review of the targeting of anti fraud investigations;
- The use of data and data matching to identify possible fraud;
- The pursuit of more prosecutions and sanctions;
- An attempt to gain greater public support in the fight against fraudsters;
- The implementation of the principles of good practice, common core training and continuous improvement;
- The promotion of closer working with the Benefits Investigation Unit;
- The exploration of a risk analysis approach to identifying potential fraudsters;
- The maintenance of a regular system of review of quality and effectiveness of referrals and investigations;
- The exploration of access to claimant financial intelligence;
- Comparison of NIHE performance with other agencies within Northern Ireland and Local Authorities within GB; and
- Analyses of causes of official error and identification of means of reducing these.

In the current year 2004–05 the NI Housing Executive plan to:

- Implement a systematic recovery ; plan for historic overpayments;
- introduce new methods of measurement of performance (Security against Fraud and Error);
- Introduce a new computerised Fraud Management module;
- Prepare for changes to the verification framework, the abolition of benefit periods and the introduction of risk based interventions;
- Explore data matching with the Inland Revenue;
- Establish a composite register of fraudsters;
- Research further the extent of landlord fraud;
- Explore greater involvement in claimant intelligence gathering; and
- Carry out a further datamatching exercise with the Rates Collection Agency to identify duplicate claims.

The NI Housing Executive has undertaken and completed a review of its Housing Benefit—Fraud/Error Strategy.

The combined levels of fraud and error in Housing Benefit administered by NIHE reduced from 3.8% in 2002–03 to 1.9% in 2003–04. Early estimates from the latest benefit review findings would indicate that the initiatives taken by NIHE are continuing to impact on the levels of fraud and error, however, it is too early in the year to be able to categorically state that there will be a decrease in 2004–05.

REASONS FOR FRAUD AND ERROR

Following criticisms by the Public Accounts Committee and others in the mid 1990s, the Social Security Agency developed a major strategy for tackling fraud and error which included an emphasis for the first time on comprehensively measuring levels of fraud and error across the benefit system. Since 1999 the Agency has regularly measured fraud and error in relation to Income Support, Jobseekers Allowance and Housing Benefit and the results are published every year.

As well as measuring the fraud and error levels, the strategy also covers getting cases right at the gateway to benefit, putting things right when things go wrong and keeping things right by updating benefit entitlement when circumstances change. The Agency recognises that further improvement is needed and the current action plans are focused on meeting aggressive targets to reduce fraud and error in all the major benefits. The latest figures for Income Support and Jobseekers Allowance show that the Agency is on target to meet the objectives set out in the current Public Service Agreement (PSA).

Due to the nature of the business of delivering of social security benefits, fraud and the risk of fraud will always be present, however the Department is actively addressing this issue through the actions noted in response to the previous question and current performance measures indicate that PSA targets are being achieved. In addition, training continues to be a major commitment for the Social Security Agency to ensure that its staff are fully equipped with the necessary skills to pay the right benefit to the right customer first time—every time. During 2003–04 the Agency spent £2 million (equivalent to 6,000 staff man-days) on benefit training.

More focused training and material on complex decision making issues are now being provided and there is increasing emphasis being put on development of staff. The new Learning Pathways, introduced in April 2003, provided greater flexibility and allowed training to be targeted at specific needs. This has resulted in more effective training and contributed to improved accuracy.

Training has always been recognised as an essential part of the Benefit Security Strategy, which introduced a comprehensive range of initiatives, designed to reduce fraud and error and improve accuracy.

Recent developments have been:

- A training package, which leads to a professionally accredited qualification, has been introduced for all fraud investigators. In July 1999 a new training package was developed titled “Professionalism in Security” (PINS). This is a Foundation Level Training package, accredited by Portsmouth University. The training encompasses seven modules and is delivered to Agency Fraud Investigators by Department of Work and Pensions (DWP) Trainers. Staff receives full training in investigative techniques, Data Protection and Human Rights legislation. Successful completion of these modules results in the award of a professional qualification, which is recognised in the wider fraud community. It is mandatory for all Fraud Investigators to undertake this training;
- Benefit Security Directorate has continued to analyse the causes of fraud and error, risk assess offices and carry out a series of Benefit Reviews. These initiatives help to identify areas of weakness that are then addressed by local training;
- Benefit Security have also been responsible for providing consolidation centres where staff are able to receive the necessary support required whilst learning a new benefit;

- Training is targeted at identifying weaknesses and complex areas, increased levels of checking, more frequent interventions on cases which are deemed to be susceptible to error and more regular sharing and feedback of information through staff fora.

In relation to Housing Benefit, the current method of measuring of the level of fraud and error in the Housing Benefit system is performed by Housing Benefit Review and began in the year 2001–02. This system estimates the levels of customer fraud, customer error and official error both as a percentage of caseload and benefit expenditure. The performance figures since then are as follows:

	<i>% of Caseload</i>	<i>% of Expenditure</i>
2001–02	7.0%	3.8%
2002–03	7.3%	3.8%
2003–04	6.2%	1.9%

These figures compare favourably with other benefit administering authorities in Great Britain.

Although this method of measurement commenced in 2001–02, the Housing Executive has always been actively involved in reducing fraud and error in HB. The Housing Executive's current approach to dealing with fraud dates back to the Public Accounts Committee hearing on HB fraud in 1996. Following this hearing, where it was accepted that the Housing Executive needed to introduce a more structured approach to counter-fraud work, the Executive established its HB Security Strategy, which became effective from April 1998. This strategy introduced a number of initiatives including the operation of the then new Verification Framework; data-matching; other initiatives under the HB Fraud Order 1997; and the establishment of a new Service Level Agreement with the Benefit Investigation Unit of the Social Security Agency. Prior to this strategy, while the Executive was still engaged in anti-fraud work, there was no formal recording mechanism for the level of fraud found. The Housing Benefit Security Strategy was subject to a major review and updating during 2004.

As part of the updated strategy the Housing Executive has identified the source and extent of the risks of fraud and error and has ensured that a wide range of measures is in place to address these risks. In doing so, it is planned that the downward trend in fraud and error levels will continue into the future.

The Housing Executive has been involved in a significant recruitment exercise over the past three years and this has played a part in error rates, although its effect is considered to be limited. In an organisation like the Housing Executive there will always be a degree of staff turnover. This can create problems in the administration of a complex benefit such as Housing Benefit and, until new staff are fully trained and their expertise has built up, it is possible that there will be a higher level of error than with more experienced staff. However, in the evidence-taking session on 6 September the impression was incorrectly given to the Sub-Committee that during 2002–03 the Housing Executive had 300 inexperienced, casual staff dealing with Housing Benefit. This in fact was not the case. The point that should have been made was that over the three year period 2001–02–2003–04 the Housing Executive has recruited over 300 new permanent staff at the grade responsible for assessing Housing Benefit claims (though not all these staff were on Housing Benefit duties). Officials have indicated that they wish to apologise to the Committee for providing this misleading information.

Considerable investment is made in ensuring that staff are trained in all aspects of the administration of Housing Benefit. During 2002–03, a wide range of courses was run, covering such issues as Housing Benefit Audit, Fraud Awareness, Housing Benefit Assessment, Housing Benefit System Usage, providing 1,000 training places. Housing Benefit training courses run in 2003–04 provided 1,300 training places.

CHILD SUPPORT AGENCY

On 25 November 2002, the Child Support Agency began processing cases on the new integrated computer and telephony system (CS2) and from 3 March 2003, new applications for child support have been assessed using the new computer system and the new legislation.

The introduction of the new computer system has been beset by problems. Since January 2004 the Agency has introduced a number of system fixes designed to improve performance and stabilise the new computer system in advance of Migration. However there are still considerable and unacceptable problems and it is anticipated that this programme of system fixes will continue into 2005.

The current law states that existing cases will be transferred in bulk to the new scheme when Ministers are satisfied that it is working well. However there is no assurance that this will be possible and the Minister for Northern Ireland will be discussing with Secretary of State for DWP possible options.

November 2004