



House of Commons
Northern Ireland Affairs
Committee

**Northern Ireland
Departments' 2002–03
Resource Accounts:
Government Response
to the Committee's
Third Report of Session
2004–05**

**Third Special Report of Session
2004–05**

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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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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), Julia Kalogerides (Secretary).

Contacts

All correspondence should be addressed to the Clerk of the Northern Ireland Affairs Committee, House of Commons, 7 Millbank, London SW1P 3JA. The telephone number for general enquiries is 020 7219 2172/3; the Committee's email address is northircom@parliament.uk

Third Special Report

The Committee published its Third Report of Session 2004-05 on 11 January 2005. The Government's response from Ian Pearson MP, Parliamentary Under-Secretary of State, Northern Ireland Office, was received in the form of a Memorandum on 16 March 2005. The response is published as an appendix to this report.

Appendix

INTRODUCTION

1. I would like to thank the Northern Ireland Affairs Committee for its comprehensive report on the Northern Ireland Departments' 2002-03 resource accounts. The Committee's report recognises the importance of good financial management and I fully agree with that view. High standards of financial management and control are vital to the effective stewardship of public funds.

2. The Committee's report raises issues in respect of the Department of Finance and Personnel's (DFP) responsibilities for the provision of guidance to Northern Ireland Departments on financial practice, public accountability and resource accounting.

3. The report also raises issues in respect of the Department for Social Development's (DSD) qualified resource accounts in the years 2001-02 to 2003-04.

Conclusions and Recommendations

Paragraph 4: Northern Ireland Departments are continuing to attract an unacceptably high level of negative audit opinions.

4. I acknowledge that there were problems in the implementation of resource accounting across all Northern Ireland departments. These arose largely as a result of the structural reorganisation associated with the introduction of devolution, which meant that departments had a short dry run period before the formal introduction of resource accounting. Departments also suffered from a shortage of adequately qualified and experienced staff in the departments at that time.

5. There has been considerable improvement since then, so that in 2003-04 the number of qualified audit opinions on NI departments had fallen to four, from ten in 2001-02. Of these, two result from the introduction of a technical accounting standard and are not expected to recur.

Paragraph 7: ...we remain concerned about the rigour of financial management in Northern Ireland departments. The guidance offered by the Department of Finance

and Personnel (DFP) 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.

6. DFP is currently leading on a number of initiatives to improve financial management throughout the NI departments. These include:

- The introduction of a financial skills framework which will cover all of the NI departments and will ensure that all financial staff have access to training that will provide them with the skills and knowledge appropriate to their work.
- The professionalisation of the finance function which includes the requirement that from December 2006 every department has a qualified accountant with direct access to the board.
- Regular meetings with the departmental finance directors to ensure they are informed about DFP initiatives and financial management and accounting issues.
- The introduction of a new accounting system as part of the Accounting Services Programme (ASP) which will significantly improve the information available to managers and create a single accounting platform for the whole of the NI Civil Service.
- Meetings with Departments who have specific problems in relation to audit qualification of their accounts to identify how DFP can help remove the qualification in future.

7. DFP is also in consultation with HM Treasury (HMT) about how it will lead Northern Ireland's departmental financial management reviews, similar to those currently being led by HMT in GB departments.

Paragraph 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.

8. I note the Committee's comments. I am fully committed to faster closing of accounts and WGA and recognise the benefits that a faster closing timetable will bring,

in terms of helping to reduce the level of negative audit opinions, better budgeting and improved financial management generally and we are determined to bring this about.

9. However, I am also concerned that the Treasury timetable for having 2005/06 accounts laid by the summer recess overlaps with implementation of the Accounting Services Programme (ASP), which is one of the major reform projects in Northern Ireland. It involves major IT and business process change and requires significant financial and human resource input, particularly from our accountants and finance staff. DEP has therefore produced a timetable for faster closing which takes into account the ASP implementation, with the aim of having the accounts laid by the summer recess from 2007/08. I hope that some departments will be able to meet the current HMT timetable.

Paragraph 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.

10. I agree about the need for revised guidance on the use of consultants. Draft guidance was prepared by DFP and issued in November 2004 to departments for comment. The feedback has been analysed and discussed with departments and the new consultancy guidelines were formally issued to departments on 18th February 2005.

11. One of the main reasons departments retain consultants is to help with project appraisal. DFP has also provided further guidance on using consultants in this context.

12. I have also consulted with colleagues in DSD and have obtained the following responses in relation to the issues raised by the Committee.

Paragraph 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.

13. The Department for Social Development (DSD) fully accepts the need to have in place robust and effective systems of financial control over all the resources for which it

is responsible. DSD agrees that a sustained effort is needed to address its record of audit qualification and has put in place a comprehensive range of measures across all areas where qualifications exist which collectively are designed to deal with issues of financial control and work towards the removal of audit qualifications, wherever possible. Information about the main measures that are in place in each area of audit qualification are provided below.

Social Security Benefits

14. The Social Security Agency (SSA) has in place a comprehensive and rigorous Benefit Security Strategy which is designed to prevent, detect and correct fraud and error in the benefit system. The Agency is committed to meeting and where possible exceeding the targets set out in its Public Service Agreement for reducing the levels of fraud and error year on year and will continue to monitor and review performance against these targets. Details of the strategy which is being implemented by the Agency are provided in response to the Committee's comments at paragraph 20 below.

Housing Benefit

15. The Northern Ireland Housing Executive (NIHE) is committed to achieving a sustained reduction in the level of fraud and error in the Housing Benefit system. A Public Service Agreement target of reducing fraud and error by 25% by April 2006 has been set by Ministers.

Grants to Registered Housing Associations

16. The Northern Ireland Audit Office (NIAO) has raised a number of criticisms regarding weaknesses in financial control and monitoring of grants provided by DSD to Registered Housing Associations, resulting in an audit qualification of that part of the Department's Resource Account. DSD has responded by putting in place a range of measures designed to address the weaknesses identified. These include:

- Evidence-based certifications to augment the information provided by Housing Associations in claiming grant.
- Strengthening the Housing Association Guide.
- Issuing a Best Practice Action Plan to all Housing Associations.
- Working closely with the NIAG in identifying and implementing additional controls and procedures that need to be put in place in respect of its grant aid to Housing Associations.

Later this year the Department will launch the Client's Charter initiative which will require a commitment from Housing Associations to effect continuous improvement, with measurement as its basis. DSD is also investigating with the Chartered Institute of Housing the feasibility of developing a training package, which will provide everyone involved in the housing development process with relevant qualifications. Based on

progress to date, DSD has set itself the objective of having the qualified audit opinion removed from its housing programme as part of the 2004-05 audit.

Urban Regeneration and Community Development

17. DSD has introduced a range of new control systems in the allocation and monitoring of grants and it expects these measures to have a significant positive impact in 2004/05.

18. A major project commenced in August 2004 to develop and establish common systems for assessing and processing grant applications across the Department's Urban Regeneration and Community Development Group (URCDG). This will provide:

- A generic procedures manual and an advice and guidance service, designed to promulgate best practice and facilitate uniform decision-making across the Group.
- A risk management approach to the verification and monitoring of grants to the community and voluntary sectors.
- A computerised database of funding to the voluntary and community sector in Northern Ireland became operational in April 2004. This is an essential tool in helping to avoid duplicate funding.
- A "Good Practice in Governance and Finance" guidance manual will be published in April 2005.

Within URCDG, the Quality Assurance Unit and Review Panels continue to be key elements of management control. The Group is committed to training and developing its staff in all disciplines, and specialised training is being developed in the areas of economic appraisal and grant administration, the latter in conjunction with the Chartered Institute of Public Finance and Accountancy (CIPFA). The Department has set itself the objective of achieving an unqualified audit opinion in this area by 2005-06.

Social Security Agency's Programme Accounting Computer System

19. The qualification in this area relates to uncertainties over certain debtor and creditor balances within the Social Security Agency's Programme Accounting Computer System (benefit) accounts.

20. In respect of debtor balances, the Agency has now decided to follow, where appropriate, the approach taken by the Department for Work & Pensions (DWP) in their modernisation of debt management. Accordingly the Agency will take advantage of the Department's recovery contracts and their new debt IT system. The new debt IT system will specifically help to address the accounting qualification issues.

21. In respect of creditor balances, an outline business case (OBC) is currently being prepared to examine options that will address the underlying accounting issues. The OBC is expected to be finalised in March 2005.

22. In both these issues the Agency is closely monitoring, and engaging where appropriate with, the DWP in their progress in removing these accounting qualifications from their own Resource Accounts.

Paragraph 20: 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.

23. DSD fully accepts the need for robust and effective strategies to tackle fraud and error in social security. The strategies are kept under continuous review to ensure that they remain relevant and reflect best practice.

24. During 2002-03 the SSA undertook a comprehensive review of its Benefit Security Strategy, which confirmed that it was carrying out the right procedures and measures to tackle fraud and error but the way in which they were being done could be improved upon.

25. To underpin the strategy and reduce the levels of fraud and error the Agency has introduced a number of initiatives, which include:

- New procedures for the allocation of National Insurance Numbers to provide a greater degree of security and confidence in the process.
- Carrying out a detailed analysis on the causes of official error to improve accuracy and quality of decision making.
- Introducing 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.
- Closer working with the Post Office, Inland Revenue and Customs and Excise on fraud prevention and sharing good practice.

26. All benefit branches have agreed Programme Protection Plans in place to improve accuracy and identify areas for action to reduce levels of fraud and error. During 2003-04 the Agency checked over 9,000 Income Support and Jobseeker's Allowance cases before payment to prevent fraud and error entering the system. Over 1,300 of these cases were corrected. During the same period over 67,000 Income Support, Jobseeker's Allowance, Incapacity Benefit and Disability Living Allowance cases were examined to correct errors already in the system and over 6,100 of these cases

had their benefit corrected resulting in a change to the amount of benefit paid totalling £5.2m. The Agency continues to regularly monitor and measure the levels of fraud and error and the Agency's Management Board gets regular reports on performance. In 2003-04 the Agency also carried out over 7,700 fraud investigations and in 3,900 of these cases entitlement to benefit was adjusted. 345 cases were referred for prosecution while 191 cases were successfully prosecuted. In addition the Agency imposed 155 sanctions of which 101 were administrative penalties and 54 were cautions.

27. In addition, the NIHE has within the last year carried out a major review of its own policies and procedures relating to Housing Benefit fraud and error and has devised a new Housing Benefit Fraud and Error Strategy to ensure the effectiveness of these measures.

28. During 2005 the NIHE is also:

- Implementing a systematic recovery plan for historic overpayments.
- Introducing a new computerised Fraud Management module and a register of fraudsters.
- Preparing for changes to verification work, the abolition of benefit periods and the introduction of risk based interventions.
- Working more closely with the Inland Revenue and the Rates Collection Agency on data matching and fraud issues.

29. The combined effect of the measures in the Housing Executive's strategy is designed to help the organisation achieve its challenging Public Service Agreement target for reducing fraud and error by 25% by April 2006.

Paragraph 22: The Department appears unable to maintain reductions in fraud and error across all benefits year-on-year.

30. DSD fully accepts the need to regularly monitor progress with the implementation of counter fraud strategies in the areas of social security benefits and to pursue year on year improvements. Challenging targets for reduction in the levels of fraud and error have been set in successive Public Service Agreements and performance is continually monitored against these. The last three years have seen a downward trend in levels of fraud and error across all the major benefits.

31. The levels of fraud and error reported by the Committee include cases of suspected fraud. However, since 2003-04, for internal reporting purposes — and in line with the approach taken by DWP - the SSA has also prepared figures excluding suspected fraud as it believes that this provides a more accurate indication of actual fraud levels. The Agency has in place procedures for the assessment of these cases

resulting in their correct classification and recording as confirmed fraud where appropriate. The Agency is currently discussing with the NIAO the possibility of having suspected fraud removed from the reported figures.

32. Excluding suspected fraud, the level of fraud and error in Income Support has fallen from £30.3m in 2002-03 to £25.1m in 2003-2004 and the latest indications are that the level has fallen again to £22.6m in 2004-2005. In Jobseeker's Allowance the level of fraud and error (excluding suspected fraud) has fallen from £9.2m in 2002-03 to £7.9m in 2003-04 and again the latest indications are that the figure has fallen further to £7.5m in 2004-2005. For Incapacity Benefit, where reviews are carried out every 2 years, the last benefit review carried out in 2003 showed a level of fraud and error of £7.1 m compared to the previous figure of £8.1 m reported in 2001. The latest benefit review findings for Disability Living Allowance are not yet available but indications are that the figure will show a significant reduction compared to the figure of £41.7m reported in 2002.

33. The Agency is currently meeting its Public Service Agreement targets for reducing the levels of fraud and error and the comprehensive range of activities being carried out under the Agency's Benefit Security Strategy are working to reduce the levels still further. The combined levels of fraud and error in Housing Benefit administered by the NIHE reduced from 3.8% in 2002-03 to 1.9% in 2003-04.

Paragraph 23: Fraud and error levels are unacceptably high and senior officials in the Department for Social Development have not conveyed the sense or 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.

34. Recent years have seen improvements in the levels of fraud and error, but the DSD recognises that much more needs to be done and will continue to commit significant resources in the drive to reduce losses further.

35. DSD's response to the Committee's comments at paragraph 20 of the report sets out in some detail the comprehensive range of measures being undertaken as part of the SSA's Benefit Security Strategy and the NIHE's Housing Benefit Fraud and Error Strategy, respectively. During the course of this year, the SSA's work plans include:

- Carrying out over 58,000 interventions on benefit claims to ensure that all the correct information is obtained so that claims are processed securely and accurately.
- Carrying out over 74,000 other interventions and checks to detect and correct fraud and error which has entered the caseload after the initial claim stage.

36. The NIHE is also engaged in a range of additional activities, many of which involve matching Housing Benefit data against a variety of other databases in order to identify potential fraud and error. The Housing Executive is participating in a number of national initiatives such as providing data to the Housing Benefit Matching Service and investigating reports on occupational pensions produced under the National Fraud Initiative to match pensions declared for Housing Benefit purposes and the pension payment records of providers.

37. DSD is determined to ensure that the impact of these efforts will be seen in continuing reductions in losses from fraud and error.

Paragraph 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.

38. The Secretary of State for the DWP held a meeting with EDS senior management (IT Providers) on 1 February 2005. At this meeting he took stock of the present position in relation to EDS's contract to provide computer and telephony services to the Child Support Agency (CSA). He concluded that acceptable progress is being made in improving that service and proposes to hold a further meeting later in the year.

39. EDS has already committed to deliver the next software upgrade to improve the system and provide a long term plan for correction of the remaining defects by the Spring. Following this milestone, the Secretary of State (DWP) will make a statement to Parliament on the status of the system.

40. The remaining old scheme cases will transfer to the new scheme when the Government is satisfied that the new system and operations are robust.

Conclusion

41. Improving financial management and eliminating negative audit opinions are important issues and the areas highlighted by the Committee have presented John Spellar and I with many challenges. As I said at the start of my response high standards of financial management and control are vital to the effective stewardship of public funds and I can assure the Committee that everything possible will be done to bring this about.