



Northern Ireland  
Assembly

Committee for the Office of the First Minister  
and deputy First Minister

# OFFICIAL REPORT (Hansard)

OFMDFM Budget: Governance Issues

4 July 2012

# NORTHERN IRELAND ASSEMBLY

## Committee for the Office of the First Minister and deputy First Minister

OFMDFM Budget: Governance Issues

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**Members present for all or part of the proceedings:**

Mr Chris Lyttle (Deputy Chairperson)  
Mr Danny Kinahan  
Mr George Robinson  
Ms Caitríona Ruane

**Witnesses:**

Mr Stephen Boyd	Office of the First Minister and deputy First Minister
Mr Noel Lavery	Office of the First Minister and deputy First Minister
Mr Tim Losty	Office of the First Minister and deputy First Minister
Mr Gavin Patrick	Office of the First Minister and deputy First Minister

**The Deputy Chairperson:** We will now receive a briefing from departmental officials on governance issues arising from the qualification of the Department's accounts for 2010-11. Members will recall that we noted earlier in the meeting that the Public Accounts Committee's (PAC) interest in the Ilex accounts, and the PAC will launch its report on that this afternoon. The Department's annual report for 2011-12 has been laid in the Assembly, and a copy of pages 1 to 56 of the report is included in members' meetings packs. A copy of the full report has been e-mailed to you. With us today, we have Mr Tim Losty, Mr Noel Lavery, Mr Gavin Patrick and Mr Stephen Boyd. You are very welcome, gentlemen. I invite you to make some initial remarks, after which we will have questions.

**Mr Noel Lavery (Office of the First Minister and deputy First Minister):** Thank you, Chair. I will be referring to the statement on internal control (SIC) and to the Comptroller and Auditor General's (C&AG) annual report.

I appreciate the opportunity to brief the Committee on the 2011-12 resource accounts for the Department. This time last year, I appeared before the Committee to discuss the qualification on last year's accounts. On those accounts, the Comptroller and Auditor General reported on three issues: weaknesses in the sponsor-control arrangements for directly funded bodies; consultancy expenditure not approved by the Department of Finance and Personnel (DFP); and a breach of approval granted by DFP for spending on the Maze/Long Kesh remediation.

I stated then that I took those matters seriously and outlined the actions that I was taking to address the governance issues in the Office of the First Minister and deputy First Minister (OFMDFM). In my statement of internal control, which members have copies of, I report that for the current year, the head of internal audit — Department of Finance and Personnel's internal audit, which supplies that

function for the Department — has referred to the positive actions that the Department has taken to address the weaknesses identified last year.

Some of the positive actions that we have taken have included taking a full review of the arrangements for providing funding to directly sponsored bodies, including benchmarking and implementing controls based on best practice in the Department for Social Development (DSD) and Invest NI. We have introduced two operational manuals, for the sponsorship of arm's-length bodies and for grant funding for third-party operations. We have reissued guidance on the approval of all business cases and consultancy and provided dedicated training sessions on those matters, with all business cases that go to the Department of Finance and Personnel now requiring my approval and that of a board subcommittee. We have also introduced new guidance on single-tender actions and set up a finance forum to share best practice and to promulgate guidance in the Department. New governance units have been set up in the finance directorate and the equality directorate, which has most of the funding. We have also recruited six qualified accountants and two additional economists.

In the statement on internal control I point out the previous weaknesses and adherence to appraisal consultancy and procurement guidelines. The second paragraph under that heading indicates that there has been independent verification of the progress on those issues. As I say in the statement, due to those actions, the head of internal audit has increased his assurance level, which was limited in 2010-11, to satisfactory. Therefore there is an independent verification from the head of internal audit of the controls, which were limited and were of serious concern to me, to a satisfactory level.

I ask members to note that in his report on our 2011-12 accounts, the C&AG welcomes the measures taken by the Department. Going back to my statement on internal control, I have reported on irregular expenditure due to breaches of approval that occurred in 2011. There are two issues there: first, expenditure on Maze/Long Kesh, which was reported on last year by the C&AG; secondly, expenditure at Ebrington barracks, which is managed on our behalf by Ilex but paid for by OFMDFM, for which DFP approval was withdrawn because of a breach. That matter was covered in the PAC hearing on 25 April.

The qualifications of the account are a result of not gaining DFP approval for projects in 2010-11. If a project is deemed to be irregular, the irregular expenditure carries through until the project has finished. If there is an issue in 2011 and there is still expenditure in 2012, you are qualified in 2012; there is nothing that you can do to rectify that now. We are now dealing with the carry-forward into 2011-12. These matters were in the previous year.

As I said, the Maze/Long Kesh project was reported in the C&AG's report last year, and the Ilex issue was part of the PAC session. We do not take those matters lightly. I said that they are from the previous year. Ilex has strengthened its internal controls, and we, along with DSD, which is a joint sponsor, have strengthened our sponsor controls. We have monthly accountability meetings between sponsor Departments and Ilex with the two departmental accounting officers. Tim is involved on my side as well. We consider progress against an agreed action plan. At present, there is good progress; there have been no further breaches. The Department has instituted extra controls. Delegated limits on Ilex have been reduced, and there is additional scrutiny of drawdown requests and business case approvals. I ask you to note that, in his report, the C&AG states that he understands that progress has been made by Ilex in strengthening its governance and other structures.

I re-emphasise that I take my responsibilities for governance and stewardship of OFMDFM extremely seriously. I am not, in any way, content that the Department's accounts have been qualified; I am, however, satisfied that, due to the changes that have been introduced, progress has been made. I want to continue to improve governance and control in the Department. Since the year end, I have established a new governance and budget committee, which will meet monthly to consider the key governance and budgetary risks in the Department and its sponsor bodies. I emphasise, as I reported at your meeting on 30 May, that the provisional outturn that relates to the accounts for the current year was 0.8%. That improved significantly on last year's performance; it is our best ever result.

I ask the Committee to note my commitment to making further progress on the matters that were raised in the Comptroller and Auditor General's report.

**The Deputy Chairperson:** Thank you very much for your update. We had emergency meetings last year on the irregular accounts, and you have explained why the qualification has continued into this year. Are you fully satisfied that the measures have been put in place to do everything that you can to avoid new qualifications on top of that in future years?

**Mr Lavery:** Yes. I have put those additional measures in place. I rely on assurances from others, but I have significantly strengthened the procedures since coming into OFMDFM. I rely on assurances from heads of division and arm's-length body chief executives, but I am content with the procedures that have been put in place. We are by no means complacent, but I am satisfied with the progress that we have made. For instance, there has been no issue with consultancy expenditure and the approval of business cases in the Department. We have had independent verification from DFP and our economists on our progress.

**Mr Kinahan:** Thank you very much. You said that you have put things in place. When you read about Ebrington barracks, it says that the Department spent more than £4 million when it was supposed to spend only £3 million. What is in place to stop the Department just spending again and you only hearing about it later?

**Mr Lavery:** Ilex manages that contract on our behalf, so it gets the expenditure certificated, and we get documentation before we make the payment. However, a commitment was made without departmental approval. The Department's accounts are qualified because it makes the payment. The money goes through our books, so our accounts are qualified.

Ilex is now monitoring expenditure against every business case approval. That action has been introduced by its new finance director and deputy chief executive. We have strengthened our procedures on drawdown. We are looking for confirmation from them that they have business case approval, so that I have an explicit assurance specific to the contract. That is in addition to a quarterly assurance from the Ilex chief executive that all expenditure is within the proper approvals.

**Mr Tim Losty (Office of the First Minister and deputy First Minister):** We have severely strengthened all the reporting mechanisms that we have with the organisation. We have an action plan that was agreed by Ministers, and we have communicated to the board a series of actions that it must take for us to be sure that we have confidence in its governance procedures. All business cases are now included on a tracking system that we have access to, so we know exactly what stage a business case is at, how much it is for and when there will be drawdown. We scrutinise every request for drawdown and compare it with the business case approval system. All members of staff in the organisation have been trained on business case and governance responsibilities. It has been included in revised job descriptions. The deputy chief executive, who has a governance and accountability responsibility in the organisation, has to countersign the approval of all business cases. The two accounting officers in DSD and OFMDFM meet the chair, chief executive and deputy chief executive monthly to go through all governance issues. So, it is very tight.

**Mr Kinahan:** It is belt and braces.

**Mr Losty:** Yes.

**Ms Ruane:** Go raibh maith agat, a Chathaoirligh. Thank you for your presentation. I know how difficult it is to manage arm's-length bodies when you are acting on assurances. I welcome the fact that you have in place the plan that you are talking about, Tim. That is the way to manage them — you are looking at their accounts, they are working with finance people and they know that their money is being scrutinised. It is one of the reasons why my party and I want to see as few as possible. We think that it is better that the power rests with Departments.

I welcome the work that is being done on consultancy. I am not saying that you do not sometimes need consultancy. Sometimes you do to get projects done. However, we need to limit it as much as possible. In the past, single-tender actions were often used to get things done but in a way that was maybe not the best. So, I welcome your action on that.

I note what you said about working with your partner Departments like DSD. That is important. If there is any loophole, organisations can get through it. Therefore, it is important that you work together and put in place strong support, monitoring and accountability structures. I urge you to continue the consistency of approach. Often, with the busyness of government, you can do it for a while and then it drops off. I urge for consistency of approach and continued monitoring and accountability arrangements. I can see that you have done a lot of work. Things like this take up a lot of officials' time. However, it will bear fruit and is already doing so.

**Mr Lavery:** Absolutely. Ministers asked the departmental accounting officers to meet Ilex monthly. We are doing that. I want to add that, when it discovered it, Ilex brought this breach to our attention

and disclosed it. We are not taking it lightly. I appreciate your comments about consultancy and approvals as well. Thank you.

**Mr G Robinson:** I have a small supplementary question that may not be relevant to this meeting. Is there any update on the Shackleton Barracks site?

**Mr Losty:** Since we last talked to the Committee, we have had meetings with some of the local community organisations. They have expressed an interest in some potential uses of the site. Given the recent weather, we have been very concerned about potential flooding. We have an agreement with the Rivers Agency to clear some of the channels and to look at some of the water going on to the Shackleton site. Part of the problem was caused by water coming in from the surrounding area. We have looked at that, and the Rivers Agency will take control of some of the rivers on the site. We also have an agreement with local maintenance people so that, if we get an advance warning from the Met Office of potential bad weather or high tides, we will make a few phone calls and make sure that people check out the site before the weather hits. Although there was some expected flooding in that area — it was basically water lying on the top of the ground — there was no flooding on or from the site during the recent bad weather. However, we really have to keep an eye on flooding up there.

**Mr G Robinson:** Apart from that, have there been any other expressions of interest?

**Mr Losty:** Yes. The assets management unit and the Department have spoken to a number of potential business interests, and a number of people have looked at the site. That is still at an early stage. We also have a commercial operation on the site and a farmer is growing produce there. He has a conacre agreement for 11 months, which started last month. We are also quite far ahead with plans for a festival of speed event to take place on the site in August, which will also attract people in from the local community. We are trying to identify as many ways as possible to get community usage. However, we are not deviating from the ultimate intention of disposing of the site and getting money in for the Executive.

**Mr G Robinson:** Has there not been any departmental interest in the site?

**Mr Losty:** We continue to talk to a number of Departments, which, either through their work or some of the projects they are involved in, may have an interest in the site. Some of their arm's-length bodies may also have an interest in it. We continue to do that.

**The Deputy Chairperson:** A new chair is to be appointed to Ilex. Is the remuneration range for that post at the normal scale for a part-time chair?

**Mr Losty:** The remuneration goes up to a certain amount depending on the number of days that the potential new chair can commit to the organisation, and whether he or she is expected to do some additional work. The previous chair was on a certain amount. We can pay up to that amount, but that may not necessarily be what the incoming chair will be on.

**The Deputy Chairperson:** Are you satisfied that there will be no excessive expenditure in relation to that appointment?

**Mr Losty:** Everything will be scrutinised.

**Mr Lavery:** Did you have a question about the acting chair?

**The Deputy Chairperson:** No; that has been covered.

Gentlemen, before you leave, I have another question. Included in members' packs is the OFMDFM annual report, part of which is the management commentary on performance against key priorities, as defined in the 2008 - 2011 Programme for Government. I have made my views known regarding the manner in which the report for that Programme for Government was brought to the Assembly. It was made through a written statement, and I did not feel that that was an appropriate or a sufficiently open and transparent way to do that. It also failed to give the Assembly an opportunity to properly examine performance against key targets. Two thirds of the targets were met, but one third was not, and I thought that it would have been much more positive for us to look at those in more detail.

The report goes into performance against key public service agreements. One of those is the performance on child poverty, which was one of the targets that we most underperformed on. Rather than dwelling on that issue, can you give us any information about how the Assembly and its Committees will be included in examining ongoing performance against the next Programme for Government? You mentioned delivery plans. How exactly will they be reported to the Assembly and its Committees?

**Mr Lavery:** I am not sure of the latest position on that as I have not been briefed. Can we write to you?

**The Deputy Chairperson:** That would be helpful. I am still not totally clear as to how that process will work. It is positive for Departments to include the Assembly and the Committee in the open examination of those performances. It would be very helpful if you could ask for some more detail around that process for us.

**Mr Lavery:** Just to be clear: are you looking for how we will report performance against Programme for Government targets?

**The Deputy Chairperson:** To both the Assembly and Committee; yes, that would be great. OK, gentlemen, thanks very much.

**Mr Lavery:** Thank you.