

**Department of
Finance and Personnel
Memorandum on the Twenty Ninth
Report from the
Public Accounts Committee
Mandate 2011-2016**

The Cross-border broadband initiative: the Bytel project

**Presented to the Northern Ireland Assembly
by the Minister of Finance and Personnel**

2 October 2015



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Content

<i>Pages</i>	5-8	Department of Enterprise, Trade and Investment: The Cross-border broadband initiative: the Bytel project
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Glossary of Abbreviations

ALBs	Arm's Length Bodies
DETI	Department of Enterprise, Trade and Investment
DFP	Department of Finance and Personnel
MPMNI	Managing Public Money Northern Ireland
NIGEAE	Northern Ireland Guide to Expenditure Appraisal and Evaluation
PACE	Police and Criminal Evidence

Twenty Ninth Report

Department of Enterprise, Trade and Investment

The Cross-border broadband initiative: the Bytel project

PAC Recommendation 1

Where a project is heavily dependent on the support of a partner, the Committee recommends that the strength of the partner's commitment is fully tested before funding is approved. Furthermore, where the proposed specification or costs of a project are subject to change, it should be re-appraised immediately to confirm that it remains viable and represents value for money. Eligible grant assistance levels should also be re-assessed where appropriate.

The Department of Finance and Personnel (DFP) accepts this recommendation.

Regarding the commitment of project partners, current DFP guidance contained in the Northern Ireland Guide to Expenditure Appraisal and Evaluation (NIGEAE) states that the viability of projects should be assessed to help ensure that public money is not wasted on projects that will fail prematurely, and it provides some guidance on how to conduct such an assessment. DFP will strengthen the NIGEAE guidance on project viability to stress the importance of fully testing the strength of the commitments of all partners, including relevant third parties, before funding is approved.

In addition, DFP often encourages the use of a formal Memorandum of Understanding in cases involving several partners, to help ensure their commitment. The NIGEAE project viability guidance will also be amended to encourage more consideration of using this approach.

Regarding project re-appraisal, DFP's NIGEAE guidance advises departments to have arrangements in place to provide for re-appraisal where there are substantial changes to projects, including for example significant changes to costs. Further, for cases that specifically require DFP approval, there are standard conditions of approval which require re-submission of projects where they have changed substantially or where their costs have increased by ten per cent or more. DFP will amend the NIGEAE guidance to emphasise that re-assessment of eligible grant assistance levels should form part of the required re-appraisal in relevant cases, whether or not they require DFP approval.

DFP will also bring this recommendation to the attention of departmental Accounting Officers.

The Department of Enterprise, Trade and Investment (DETI) also accepts this recommendation. DETI's staff and those in its Arm's Length Bodies (ALBs) have been reminded of the requirement to ensure that sufficient and proportionate evidence is obtained of the commitment of a project partner to the project before funding is approved for projects which are dependent on the support of a project partner.

Guidance issued to DETI staff in January 2012 (updated in May 2013) clearly highlights the circumstances in which changes in project specifications, costs, or other conditions which increase risk would require a re-appraisal of the project. Re-appraisal would also include, where appropriate, a re-assessment of eligible grant assistance levels.

PAC Recommendation 2

For all complex technical projects, the Committee recommends that independent and reliable technical expertise is engaged at the outset to provide advice on appraising and managing such projects.

DFP accepts this recommendation and it is already reflected in current guidance.

DFP appraisal guidance contained in NIGEAE states that the need for expert advice should be considered at an early stage in the development of appraisals and that it is important that the right skills and advice are sought and applied as appropriate to the case in hand.

DETI also accepts this recommendation. Current practice in DETI is for appropriate independent and reliable technical expertise to be engaged at the outset of complex technical projects to provide advice on appraisal and managing such projects. This requirement will be included in the six monthly assurance statements used within DETI and its ALBs.

PAC Recommendation 3

The Committee recommends that grant checking and vouching procedures are reviewed within six months to determine whether these are sufficiently robust to ensure that only valid and eligible expenditure is approved for payment. Specifically, checks must determine whether: items claimed for are eligible for support; the existence and valuation of assisted items is properly verified; and reliable third party evidence is obtained to show the valuation and source of items which have been supplied by related companies. The risks created by the submission of claims close to payment deadlines must be recognised and managed effectively.

DETI accepts this recommendation.

DETI's internal audit service will undertake risk based reviews of the main grant funding areas of the Department over the next six months. These reviews will include grant checking and vouching procedures to provide assurance that they are sufficiently robust to ensure that only valid and eligible expenditure is approved for payment. Internal audit will also consider if the procedures and controls are appropriate to ensure that items claimed for are eligible for support; the existence and valuation of assisted items is properly verified; and reliable third party evidence is obtained to confirm/support the valuation and source of items which have been supplied by related companies.

DETI concurs fully with the Committee's view that the risks created by the submission of claims close to payment deadlines must be recognised and managed effectively. Grants should only be paid in circumstances where it can fully be justified under the terms of the grant scheme or letter of offer. DETI's internal audit service regularly reviews compliance with the terms of grant schemes and letters of offer in relation to the payment of grant.

DFP agrees that the submission of claims close to payment deadlines creates additional risk which must be recognised and managed effectively, and that pressures to meet grant expenditure targets for European Union or other funding should not overtake the need to ensure that grant claims are appropriately scrutinised. Guidance contained in Managing Public Money Northern Ireland (MPMNI) states that an essential for committing and paying funds is '*Authorisation for payment separated from the process of making the payment, with appropriate validation and recording at each step*'. MPMNI also covers the point that grant recipients are eligible and use the grant in the way envisaged.

DFP will bring this recommendation to the attention of departmental Accounting Officers.

PAC Recommendation 4

The Committee has stated previously that fraud investigations can only be effective where investigators have an appropriate level of expertise and understanding of the law. Public bodies should ensure that only suitably qualified and experienced staff lead fraud investigations. All investigations should be commenced on a timely basis.

DFP accepts this recommendation. Existing DFP guidance already highlights the need for fraud investigations to be carried out by appropriately qualified and experienced investigators and for investigations to be commenced and conducted in a timely manner. These principles are included in MPMNI and Managing the Risk of Fraud – A Guide for Managers which issued in 2011 (DAO (DFP) 06/11).

In addition, with the support of the Permanent Secretaries Group, DFP has established a Group Internal Audit and Fraud Investigation Service with effect from 1 April 2015. Led by a Group Head of Service, the Group will be available to provide fraud investigation services to Northern Ireland Civil Service departments, agencies and

ALBs. All investigatory staff within the Group will be suitably qualified and experienced to undertake fraud investigations.

DETI intends to utilise the services of the Group's trained fraud investigators in future fraud investigation cases.

PAC Recommendation 5

The Committee recommends that all key stakeholders are notified immediately when serious allegations are received or concerns arise over the conduct of public business. An action plan for investigating such concerns should be established as a matter of priority.

DFP accepts this recommendation and expects that key stakeholders should be notified immediately when serious allegations or concerns are raised over the conduct of public business.

While recognising that notifying key stakeholders will have to be considered on a case by case basis, taking account of the specific nature of the allegations/concerns raised, DFP considers that in general such concerns should be drawn to the attention of the relevant Accounting Officer, Finance Director and any other relevant senior directors or officials. The organisation's Audit and Risk Assurance Committee should also be notified. Where an organisation is an ALB, the ALB Board should be notified, as should the sponsor department. DFP also agrees that an action plan should be established at an early stage to investigate such concerns.

DFP will draw these points to the attention of departmental Accounting Officers. DFP will also incorporate these points into updated fraud management guidance.

DETI also accepts this recommendation and in future will ensure that key stakeholders are notified immediately when serious allegations are received or concerns arise over the conduct of public business. DETI will also ensure that an action plan for investigating concerns is drawn up on each occasion when serious allegations or concerns are raised.

PAC Recommendation 6

Too much reliance was placed on whistleblowers to identify concerns over the mismanagement of public money in this case. The Committee recommends annual 'test drilling' on a small number of funded projects to provide assurance that all expenditure incurred is valid and eligible. This work should be undertaken by individuals independent of the management and oversight of projects.

DETI accepts this recommendation.

DETI already undertakes an annual test drilling exercise to test compliance with guidance on economic appraisals and post project evaluations. This will be supplemented with an annual "test drilling" exercise on a small number of projects to ensure that all expenditure incurred is valid and eligible. Review of the eligibility of grant expenditure is also an element of the programme of internal audit activity undertaken by DETI's internal audit service.

In addition, DFP will highlight this recommendation to departments and advise them that they should consider the need to 'test drill' funded projects by individuals independent of the management and oversight of the projects. Where this is to be done by internal audit it will be considered as part of the organisation's internal audit risk based planning processes.

PAC Recommendation 7

The Committee recommends that DETI commissions a PACE investigation of the Bytel project as a matter of urgency. This investigation should focus on establishing whether any individuals bear responsibility for the shortcomings within the project and whether there is any evidence of misconduct or criminal activity either inside or outside the Department.

DETI partially accepts this recommendation, and will consider it further in light of all the relevant evidence, some of which is not yet available.

The Committee is aware that there have already been several investigations conducted in past years in relation to the Bytel project. Prior to the publication of the Committee's recommendations, DETI also commissioned a preliminary investigation into the handling of particular correspondence received by departmental officials in July 2006. This correspondence contains the Bytel internal email material referred to by the Committee at the hearing on 18 March 2015. This investigation is a preliminary fact finding investigation, and is currently being undertaken by the Group Internal Audit and Fraud Investigation Service based in DFP. DETI will consider the findings arising from this latest investigation and liaise with the Police Service of Northern Ireland (PSNI) as appropriate to determine if any further investigation work, such as a wider Police and Criminal Evidence (PACE) investigation of the Bytel project, needs to be undertaken. DETI will also consider the findings to determine what other action it should take if there are no grounds to suspect criminal activity, but there is evidence of misconduct.

DETI has already written to PSNI and made them aware of the issues surrounding the Bytel project and the current investigation. DETI will update Northern Ireland Audit Office and the Committee when it has been possible to consider all the relevant evidence.

PAC Recommendation 8

The Committee recommends that DETI improves its systems for tracking the ownership status of grant-funded assets to facilitate the exercise of clawback.

DETI accepts the Committee's recommendation. DETI will review its existing systems for tracking the ownership status of grant funded assets and improve these where necessary in order to facilitate the exercise of clawback.

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