

Appropriation Account 2016

Vote 35

Army Pensions

Introduction

As Accounting Officer for Vote 35, I am required each year to prepare the appropriation account for the Vote, and to submit the account to the Comptroller and Auditor General for audit.

In accordance with this requirement, I have prepared the attached account of the amount expended in the year ended 31 December 2016 for retired pay, pensions, compensation, allowances and gratuities payable under sundry statutes to or in respect of members of the Defence Forces and certain other Military Organisations, etc., and for sundry contributions and expenses in connection therewith; for certain extra-statutory children's allowances and other payments and for sundry grants.

The expenditure outturn is compared with the sums granted by Dáil Éireann under the Appropriation Act 2016 including the amount that could be used as appropriations-in-aid of expenditure for the year.

A surplus of €214,167 was recorded for the year.

The Statement of Accounting Policies and Principles and notes 1 to 6 form part of the account.

Statement of Accounting Policies and Principles

The standard accounting policies and principles for the production of appropriation accounts have been applied in the preparation of the account.

Statement on Internal Financial Control

Responsibility for system of internal financial control

As Accounting Officer, I acknowledge my responsibility for ensuring that an effective system of internal financial control is maintained and operated by the Department.

This responsibility is exercised in the context of the resources available to me and my other obligations as Secretary General. Also, any system of internal financial control can provide only reasonable and not absolute assurance that assets are safeguarded, transactions authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected in a timely manner. Maintaining the system of internal financial controls is a continuous process and the system and its effectiveness are kept under ongoing review.

Shared Services

I have fulfilled my responsibilities in relation to the requirements of the service management agreement between this Department and the National Shared Services Office for the provision of shared services.

I rely on a letter of assurance from the Accounting Officer of the Vote for Shared Services that the appropriate controls are exercised in the provision of shared services to this Department.

Financial control environment

I confirm that a control environment containing the following elements is in place:

- financial responsibilities have been assigned at management level with corresponding accountability
- reporting arrangements have been established at all levels where responsibility for financial management has been assigned
- formal procedures have been established for reporting significant control failures and ensuring appropriate corrective action
- there is an Audit Committee to advise me in discharging my responsibilities for the internal financial control system.

Administrative controls and management reporting

I confirm that a framework of administrative procedures and regular management reporting is in place including segregation of duties and a system of delegation and accountability and, in particular, that

- there is an appropriate budgeting system with an annual budget which is kept under review by senior management
- there are regular reviews by senior management of periodic and annual financial reports which indicate financial performance against forecasts
- a risk management system operates within the Department
- there are systems aimed at ensuring the security of the ICT systems.

Arising from an administrative oversight, a small number of pension payments (5) totalling €26,465, which were proper to 2016, were not charged to expenditure until early 2017. An adjustment to subhead A.2 for this amount was therefore required to properly reflect the charge in 2016, rather than in 2017. This adjustment led to excess expenditure of €23,299 over the provision of €234,690,000 in the Vote. Procedures have been implemented in 2017 in order to prevent a similar situation arising.

Significant financial risks

No significant financial risks have been identified for Vote 35 Army Pensions.

Internal Audit and Audit Committee

I confirm that the Department has an internal audit function with appropriately trained personnel, which operates in accordance with a written charter which I have approved. Its work is informed by analysis of the financial risks to which the Department is exposed and its annual internal audit plans, approved by me, are based on this analysis. These plans aim to cover the key controls on a rolling basis over a reasonable period. The internal audit function is reviewed periodically by me and by the Audit Committee. I have put procedures in place to ensure that the reports of the internal audit function are followed up.

Maurice Quinn
Accounting Officer
Department of Defence

27 September 2017

Comptroller and Auditor General

Report for presentation to the Houses of the Oireachtas

Vote 35 Army Pensions

I have audited the appropriation account for Vote 35 Army Pensions for the year ended 31 December 2016 under section 3 of the Comptroller and Auditor General (Amendment) Act 1993. The account has been prepared in the form prescribed by the Minister for Public Expenditure and Reform, and in accordance with standard accounting policies and principles for appropriation accounts.

Responsibility of the Accounting Officer

In accordance with Section 22 of the Exchequer and Audit Departments Act 1866, the Accounting Officer is required to prepare the appropriation account. By law, the account must be submitted to me by 31 March following the end of the year of account.

The Accounting Officer is also responsible for the safeguarding of public funds and property under his control, for the efficiency and economy of administration by his Department and for the regularity and propriety of all transactions in the appropriation account.

Responsibility of the Comptroller and Auditor General

I am required under Section 3 of the Comptroller and Auditor General (Amendment) Act 1993 to audit the appropriation accounts of all Votes and to perform such tests as I consider appropriate for the purpose of the audit.

Upon completion of the audit of an appropriation account, I am obliged to provide a certificate stating whether, in my opinion, the account properly presents the receipts and expenditure related to the Vote. I am also required to refer to any material case in which

- a department or office has failed to apply expenditure recorded in the account for the purposes for which the appropriations made by the Oireachtas were intended, or
- transactions recorded in the account do not conform with the authority under which they purport to have been carried out.

Under Section 3 (10) of the Comptroller and Auditor General (Amendment) Act 1993, I am required to prepare each year, a report on any matters that arise from the audits of the appropriation accounts or examinations of accounting controls.

Scope of audit

An audit includes examination, on a test basis, of evidence relevant to the amounts and regularity of financial transactions included in the account and an assessment of whether the accounting provisions of the Department of Public Expenditure and Reform's *Public Financial Procedures* have been complied with.

The audit involves obtaining sufficient evidence to give reasonable assurance that the appropriation account is free from material misstatement, whether caused by fraud or other irregularity or error. I also seek to obtain evidence about the regularity of financial transactions in the course of the audit. In forming the audit opinion, the overall adequacy of the presentation of the information in the appropriation account is evaluated.

Opinion on the appropriation account

In my opinion, the appropriation account properly presents the receipts and expenditure of Vote 35 Army Pensions for the year ended 31 December 2016.

I have obtained all the information and explanations I considered necessary for the purposes of my audit. In my opinion, adequate accounting records have been kept by the Department of Defence. The appropriation account is in agreement with the accounting records.

Excess expenditure

The Department incurred gross expenditure in 2016 that was €23,299 in excess of the provision for the Vote. Under *Public Financial Procedures*, this requires an excess vote. The matter is explained in Chapter 6 of my report on the accounts of the public services for 2016.

Seamus McCarthy
Comptroller and Auditor General

28 September 2017

Vote 35 Army Pensions Appropriation Account 2016

		Estimate provision		2016 Outturn	2015 Outturn
		€000	€000	€000	€000
Programme expenditure					
A	Provision for Defence Forces' pension benefits				
	<i>Original</i>	223,690			
	<i>Supplementary</i>	11,000			
			234,690	234,713	227,442
Gross expenditure					
	<i>Original</i>	223,690			
	<i>Supplementary</i>	11,000			
			234,690	234,713	227,442
<i>Deduct</i>					
B	Appropriations-in-aid		5,200	5,437	5,376
Net expenditure					
	<i>Original</i>	218,490			
	<i>Supplementary</i>	11,000			
			229,490	229,276	222,066
				€	
	Net surplus			214,167	
	Excess Vote			23,299	

Notes to the Appropriation Account

1 Operating Cost Statement 2016

	2016	2015
	€000	€000
Programme cost	234,643	227,369
Pay	56	58
Non pay	14	15
Gross expenditure	234,713	227,442
<i>Deduct</i>		
Appropriations-in-aid	5,437	5,376
Net expenditure	229,276	222,066
Net allied services expenditure (note 1.1)	2,659	2,079
Net programme cost	231,935	224,145

1.1 Net Allied Services Expenditure

The net allied services expenditure amount is made up of the following amounts in relation to Vote 35 borne elsewhere in respect of administration salaries and other services.

		2016	2015
		€000	€000
Vote 18 National Shared Services Office	e	1,273	229
Vote 36 Defence	e	1,386	1,850
		<u>2,659</u>	<u>2,079</u>

'e' indicates that the number is an estimated value or an apportioned cost.

2 Balance Sheet as at 31 December 2016

	Note	2016 €000	2015 €000
Current assets			
Bank and cash	2.2	232	40
Other debit balances	2.3	—	5
Total current assets		232	45
Less current liabilities			
Other credit balances	2.4	19	23
Net liability to the Exchequer	2.5	213	22
Total current liabilities		232	45
Net current assets		—	—
Net assets		—	—
Represented by:			
State funding account	2.1	—	—

2.1 State Funding Account	Note	2016 €000	2015 €000
Balance at 1 January		—	—
Disbursements from the Vote			
Estimate provision	Account	229,490	
Net surplus	Account	(214)	
Net vote		229,276	222,066
Expenditure (cash) borne elsewhere	1.1	2,659	2,079
Net programme cost	1	(231,935)	(224,145)
Balance at 31 December		—	—

This balance includes €23,299 expenditure in excess of provision.

2.2 Bank and Cash	2016	2015
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at 31 December	€000	€000
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PMG balances	232	36
Commercial bank account	—	4
	<u>232</u>	<u>40</u>

2.3 Other Debit Balances	2016	2015
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at 31 December	€000	€000
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Other debit suspense items	—	5
	<u>—</u>	<u>5</u>

2.4 Other Credit Balances	2016	2015
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at 31 December	€000	€000
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Amounts due to the State		
Taxes payable	5	3
	<u>5</u>	<u>3</u>
Pension payments held in suspense	14	20
	<u>19</u>	<u>23</u>

2.5 Net Liability to the Exchequer	2016	2015
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at 31 December	€000	€000
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Net surplus	214	24
Exchequer grant undrawn	(1)*	(2)
Net liability to the Exchequer	<u>213</u>	<u>22</u>

*Rounding

Represented by:

Debtors

Bank and cash	232	40
Debit balances: suspense	—	5
	<u>232</u>	<u>45</u>

Creditors

Due to State	(5)	(3)
Credit balances: suspense	(14)	(20)
	<u>(19)</u>	<u>(23)</u>

	<u>213</u>	<u>22</u>
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3 Programme Expenditure by Subhead

		2016		2015
		Estimate	Provision	Outturn
		€000	€000	€000
A	Provision for Defence Forces' pension benefits			
A.1	Administration – pay		70	70
A.2	Defence Forces pensions schemes and payments in respect of transferred service			73
		<i>Original</i>	214,295	
		<i>Supplementary</i>	10,795	
			225,090	218,563
A.3	Wound and disability pensions, allowances and gratuities to or in respect of former members of the Defence Forces			
		<i>Original</i>	8,500	
		<i>Supplementary</i>	400	
			8,900	8,256
A.4	Payments to spouses of veterans of the War of Independence			
		<i>Original</i>	500	
		<i>Supplementary</i>	(5)	
			495	426
A.5	Compensation payments			
		<i>Original</i>	225	
		<i>Supplementary</i>	(152)	
			73	73
A.6	Medical appliances and travelling and incidental expenses			
		<i>Original</i>	100	
		<i>Supplementary</i>	(38)	
			62	51
			234,690	227,442
			234,713	

Significant variations

Overall, gross expenditure in relation to the Programme was €11 million higher than provided. A supplementary estimate for the amount was required, which increased the original estimate of €223.69 million to €234.69 million. The significant variations were as follows:

Description	Less / (more) than provided	Explanation
	€000	
Defence Forces pensions schemes and payments in respect of transferred service	(10,745)	<p>Expenditure under this subhead, which accounts for some 95% of the total Vote 35 expenditure, is demand driven and non-discretionary. The amount provided in the original estimate was inadequate to meet all requirements in 2016. A range of factors contributed to increased military benefit costs.</p> <p>The numbers of Defence Forces retirement pensioners rose from 11,671 at end-2015 to 11,807 at end-2016, continuing the underlying upward trend of previous years. Retirement benefits payable will vary depending on service, retiring rank and pensionable pay and many new retirees qualified for maximum retirement benefits.</p> <p>In 2016, some 75% of military personnel who retired with immediate entitlement to pension and retirement lump sum did so voluntarily, that is, before their maximum retirement age. Their numbers and rank mix will vary from year to year. Therefore, in any given year, it is very difficult to accurately predict the exact numbers of such voluntary retirements and the potential benefits payable.</p>
Wound and disability pensions, allowances and gratuities to or in respect of former members of the Defence Forces	(477)	<p>The amount provided for this subhead in the original estimate was inadequate for what transpired. The subhead is demand-driven and non-discretionary. By its nature, expenditure is therefore difficult to predict from year to year. Factors impacting on spend are the numbers and outcome of new disability pension (including arrears) and disablement lump sum awards that came on stream over the course of 2016.</p>
Compensation payments	152	<p>The main 'contingency' element of this subhead provides for payment of special lump sum compensation by the Department of Defence for service-related deaths or disablement of members of the Defence Forces while serving overseas with the UN and certain other missions. There were no such payments during 2016.</p>

4 Receipts

4.1 Appropriations-in-aid

	2016		2015
	Estimated	Realised	Realised
	€000	€000	€000
1. Contributions to Defence Forces Spouses' and Children's Pension Schemes	3,547	3,846	3,809
2. Contributions to Defence Forces Contributory (Main) Pensions Schemes	1,500	1,493	1,513
3. Recoveries of overpayments	40	96	43
4. Payments received in respect of transferred service	40	—	2
5. Miscellaneous	70	—	6
6. Receipts from pension-related deduction on public service remuneration	3	2	3
Total	5,200	5,437	5,376

Significant variations

The outturn for the year was €0.237 million more than provided. This was mainly due to the following:

Description	(More) / Less than provided	Explanation
	€000	
Appropriations-in-Aid	(237)	Employee pension contributions from Permanent Defence Force personnel comprise the bulk of receipts. These will vary according to personnel turnover changes, pensionable earnings and career progression across the Permanent Defence Force. The level of receipts is therefore difficult to predict in any given year.

5 Employee Numbers and Pay

	2016	2015
Number of staff at year end (full time equivalents)	1	1
	2016	2015
	€000	€000
Pay	55	57
Employer's PRSI	1	1
Total pay	56	58

One staff member provides administrative support to the Army Pensions Board.

Currently there are 18.3 employees (FTEs) of the Department of Defence engaged solely in the administration of pensions and other related payments. Their remuneration, which amounts to some €0.9 million, is charged to Vote 36.

5.1 Retirement pension (annual) – average payments to retired Defence Forces personnel^a

Category of pensioner	Number of pension recipients at year-end		Average individual payment (rounded)	
	2016	2015	2016	2015
			€	€
Retired officers	1,773	1,736	30,500	30,500
Retired NCOs and privates	8,526	8,425	16,600	16,400
Dependants and other ^b	1,935	1,967		
Totals	12,234	12,128		

^a Table 5.1 shows the total headcount for all categories of recipient from all subheads within Vote 35 as at year-end. Superannuation-type benefits by way of pension and gratuity (lump sum) payable to former members of the Permanent Defence Force and the dependants of deceased members account for some 95% of all military pensions' expenditure. Some retired personnel are in receipt of both a military retirement pension and a military disability pension, and similar payments are also payable to some spouses/children of deceased personnel: such dual recipients are counted only once for headcount purposes above.

^b The average individual payment has not been recorded above under 'Dependants and other' as the amounts vary due to the different categories of recipients within this sub-group. The overall average dependants' superannuation-related pension in 2016 was €9,000, broadly the same as in 2015.

5.2 Retirement gratuity (lump sum) – average payments where retiring on pension^a

Category of pensioner	Number of recipients		Average individual payment (rounded)	
	2016	2015	2016	2015
			€	€
Officers – new retirees on pension during the year	74	59	69,300	73,100
NCOs and privates – new retirees on pension during the year	256	259	41,000	35,300
Totals	330	318		

^a The level of pension and retirement gratuity will vary with retiring rank, pensionable earnings, overall reckonable service and so on.

6 Miscellaneous

6.1 Payments in excess of entitlements

There were 52 overpayment cases at year end (2015: 56) amounting to €50,423, of which €6,854 relates to previous years. Overpayments of €90,672 came to light in 2016 of which €44,939 was recovered and €2,164 written off. Efforts are ongoing to recover the outstanding amounts.^a

	2016	2015
	€	€
Opening balance	31,193	50,303
Identified overpayment in year	90,672	62,287
	<u>121,865</u>	<u>112,590</u>
 Recouped		
Overpayments Identified 2016	44,939	
Overpayments Identified pre-2016	18,965	63,904
	<u>57,961</u>	<u>65,819</u>
 Written off		
Overpayments Identified 2016	2,164	
Overpayments Identified pre-2016	5,374	7,538
	<u>7,538</u>	<u>15,578</u>
Closing balance	<u>50,423</u>	<u>31,193</u>

^a The vast majority of these overpayments relate to the portion of pension paid in the period after the date of a pensioner's death when the monthly payroll had already been processed for that month.

