# THE COMPENSATION *Agency*

## ANNUAL REPORT AND ACCOUNTS 2009-2010

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## 2009-2010

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# FOREWORD

As the new Chief Executive of the Compensation Agency, I am pleased to sign an annual report which records that in 2009/10 the Agency achieved all but one of its operational and financial targets. This represents a significant achievement by the Agency's staff. Our ability to achieve all 10 targets was impeded by the long term sick absence of key members of staff and by requests from an external agency to support them with very urgent work. Neither of these events could have been foreseen by the Agency at the target setting stage. I am also delighted to report that during the year we successfully retained our Customer Chartermark accreditation.

Our priorities for the coming year are again to reduce the number of claims outstanding at the beginning of the year and to make further progress at reducing the time taken to process claims. We have set demanding targets, aiming to improve on our performance last year. We will also progress the appraisal of our IT systems, to ensure future capability and resilience and to further improve the way we handle claims. The Agency also intends to strengthen its focus on customer service, and during the year we will be assessed against the vigorous standards of the Customer Service Excellence Scheme.

The Agency has an excellent team of very experienced staff, committed to good customer service and efficient service delivery. I am excited about joining them and look forward very much to leading the team over the next year.

Marcella McKnight

**MARCELLA McKNIGHT**

## The Agency's Business

Established as an executive agency within the Northern Ireland Office on 1 April 1992, the Compensation Agency administers the four statutory compensation schemes in Northern Ireland for criminal injuries, criminal damage and actions taken under the Justice and Security (Northern Ireland) Act 2007. Its aim is "to support the victims of crime and people who have suffered loss from action taken under the Justice and Security (Northern Ireland) Act 2007, by ensuring that they are appropriately compensated in accordance with the relevant statutory schemes". Beneath that overall aim lie two key objectives:

- to provide a responsive and effective service to all applicants in which claims are dealt with speedily, consistently and in accordance with the relevant legislation;

- to deliver the compensation schemes efficiently and cost-effectively while seeking continuous improvement to the standards of service within the limits of the resources available.

Our approach to our work is summed up in our mission statement: "to provide a fair, just and professional service to all our customers".

*The Compensation Schemes*

The **Criminal Injuries Compensation Scheme 2002 and the Criminal Injuries Compensation Scheme 2009** ("the Tariff Schemes") provide compensation to victims of violence in Northern Ireland who have been physically and/or mentally injured or who are a dependant or relative of a deceased victim. The governing legislation is the Criminal Injuries Compensation (Northern Ireland) Order 2002.

The legislation also contains provision, which operates retrospectively, to enable those victims of child sexual abuse whose claims would have been disallowed because of time limits under the earlier statutes an opportunity to submit a fresh claim under the terms of whichever scheme was applicable at the time of the abuse.

Anyone who is not satisfied with a decision on their claim under the Tariff Scheme can request a review, which is undertaken independently by a separate section within the Agency. Subsequently, an applicant can appeal a review decision to the Criminal Injuries Compensation Appeals Panel for Northern Ireland, which is entirely independent of the Agency.

During the year, the Agency decided 5,306 Tariff claims at First decision, as against 5,059 received during the year. It also issued 1,858 review decisions as against 1,865 received. In total, £13.2m was paid in compensation under the Tariff Scheme.

The **1988 Order Criminal Injuries Compensation Scheme** applies to incidents which took place before 1 May 2002. While, except in the case of child sexual abuse cases mentioned above, new applications under this Scheme would now be time barred, the Agency is dealing with the remaining, complex cases. These include cases where long-term disability has needed careful assessment; where there are significant legal issues; and where attempts at settlement outside the courtroom have not succeeded.

Thanks to a substantial effort at clearing the remaining cases during year, decisions were reached in 189 of the outstanding cases. £8.8m was paid, representing a continuing downward trend owing to reduction in the overall number of cases.

As the numbers of remaining cases continue to reduce, we will keep staffing levels in that area under review as set out in our Framework document.

The **Criminal Damage Compensation Scheme** provides compensation for malicious damage to property in Northern Ireland caused by terrorism, unlawful assemblies of three or more people and for malicious damage to agricultural property. The governing legislation is the Criminal Damage (Compensation) (Northern Ireland) Order 1977. The number of criminal damage cases received under this scheme has increased slightly in the 2009-10 year to 798 (745 were received in 2008/09). During the 2009-10 year, the Criminal Damage Branch cleared 816 claims. £12.3m was paid in Criminal Damage claims in 2008-09; the Agency paid a total of £5.3m in Criminal Damage compensation awards in 2009-10. This decrease in the total awards made was due to the settlement of a smaller number of high value cases in 2009-10 than in 2008/09.

191 appeals arising from the 1988 Criminal Injuries Compensation Scheme and the Criminal Damage Compensation Scheme were cleared during the year. 89 new appeal requests were received during the same period.

Compensation is also paid to those who suffer loss or damage resulting from action taken under the Justice and Security (Northern Ireland) Act 2007 (which has superseded the Terrorism Act 2000). 34 such claims were cleared as against 36 received during 2009/10. Payments made totalled £0.1m in 2009-10 compared to £0.2m in 2008-09.

## Commitment to Customer Service

*Performance against Targets*

| | Key Targets | Area | Target | Year to 31/3/10 | Variance |
|---|---|---|---|---|---|
| 1. | To clear 225 Criminal Injury 1988 Order claims by 31 March 2010 | Criminal Injury | 225 cases | 189 cases | (36) cases |
| 2. | To clear 62% of all cases still in hand at 1 April 2009 by 31 March 2010 | Criminal Damage | 62% | 63% | 1% |
| 3. | To clear 32% of all cases received in year by 31 March 2010 | Criminal Damage | 32% | 42% | 10% |
| 4. | To make a decision on 75% of claims in hand on 1 April 2009 by 31 March 2010 | Tariff | 75% | 76% | 1% |
| 5. | To make a decision on 29% of claims registered in year by 31 March 2010 | Tariff | 29% | 31% | 2% |
| 6. | To make a decision on 91% of review cases in hand on 1 April 2009 by 31 March 2010 | Tariff | 91% | 93% | 2% |
| 7. | To make a decision on 51% of review cases received in year by 31 March 2010 | Tariff | 51% | 65% | 14% |
| 8. | That the Agency's standards of adjudication are appropriate. This will be confirmed by the Department's Internal Audit Branch through random sampling of claims | All Schemes | Confirmed | Verified | N/A |
| 9. | To manage the Agency spending on salary, running costs and capital within financial limits agreed with the Department (including in-year adjustments) | Finance | £3,532k | £3,304k | £228k |
| 10. | To reply to 95% of complaints within 10 working days of receipt | Corporate Services | 95% | 100% | 5% |

In addition, the Agency sets a range of internal targets for particular branches and functions, to help ensure effective delivery of its services.

*Chartermark*

We take pride in our Chartermark and realise that this commits us to high standards of responsiveness to customers. We were therefore pleased to be reaccredited during 2009-10 and look forward to being assessed under the more exacting standards of the Customer Service Excellence in future years. Our charter statement sets out the standards people can expect from the Agency.

*Customer Opinion Survey*

During the year, the Agency continued with its customer opinion survey. The Agency regularly invites claimants to tell us of their experience of the Agency and to suggest improvements to its services.

*Complaints*

During the year, we closely monitored the 16 formal complaints that were received by the Agency. These complaints were fully investigated and out of the 16 complaints received, 4 were upheld. 100% of the complaints received were responded to within 10 working days.

*Stakeholders*

We have continued to meet key stakeholders regularly and encouraged them to be open and frank in expressing their comments and any concerns regarding the Agency's services. We have continued to develop our links with Victim Support NI and other interested bodies.

**Commitment to our People**

*Development and Training*

During the year, workshops were held on: Speed Reading, Information Assurance, Health & Safety, IT, Manual Handling and Fire Warden training.

In addition to this, individual staff members also availed of the following courses: Thinking on your Feet, Influencing and Negotiating, Project Management, Time Management Skills and Mind Mapping.

Alongside these, and in furtherance of its recognition as an Investor in People, the Agency sponsored staff to attend an extensive range of training in response to needs identified on personal development plans.

*Employee Involvement*

The Agency continues to emphasise the importance of internal communications. The Agency Co-ordinating Group brings together a range of managers from across the Agency on a monthly basis and provides the trigger for monthly team briefing sessions in each branch. These are supplemented by Chief Executive briefings which provide a run-down on key issues as well as an opportunity to raise queries and comments.

*Sickness Absence Information*

For the 2009-10 year, sickness absence was an average of 9.8 days per employee. This showed an increase of 2.9 days from 2008-09.

*Trade Union*

The Agency has continued to put effort into maintaining a good relationship with the Trade Union, through both the Whitley machinery and through regular contact.

**Commitment to Corporate Governance and Reporting Arrangements**

*Framework Document*

During the year the Agency operated under the terms of a Framework Document which defines the responsibilities of and the relationships between the Agency, Parliament, Ministers and the Northern Ireland Office (now the Department of Justice); financial and personnel arrangements; and planning, monitoring and accounting arrangements. The Framework Document was approved by HM Treasury.

The Chief Executive is personally and directly accountable to the Minister for the effective operation of the Agency and for managing its financial and human resources. She is also the Agency's Accounting Officer, accountable for the economic, efficient and effective use of resources provided to the Agency, for the propriety of its expenditure, and for ensuring that Government accounting requirements are met.

*Accounts direction*

The Agency's Accounts for the year ended 31 March 2010 (page 18) are prepared under a direction given by HM Treasury dated 22nd December 2009 in accordance with Section 7 (2) of the Government Resources and Accounts Act 2000.

*Financial Summary*

Annual net operating cost of £17.4 million showed a decrease of 67.5% on 2008-09 (£53.5 million). The methodology for estimating the provision's value was improved in the 2008/09 (Note 12) when provision was made for all claims in hand to 31st March 2009. This year and ongoing, the Agency only needs to provide for new cases received and to make adjustments as required to the value of cases in hand.

The Statement of Financial Position provision for Compensation Claims decreased to £46.1 million from £58.9 million last year. This is due to more cash being paid out in settlement of claims than that required to be provided in the year.

*Role of Agency Strategy Group*

To assist the Chief Executive in discharging these responsibilities, the Agency draws on the skills and experience of the Agency Strategy Group (ASG), comprising senior managers. ASG provides leadership to the Agency, agreeing its strategic direction and annual targets and plans, overseeing the delivery of the agreed targets, and aiming to secure a high standard of corporate governance. ASG normally meets monthly.

*Internal Audit and Health check*

The Agency obtained internal audit services from the Northern Ireland Office's Internal Audit Unit. An audit programme for the year is based on an assessment of risk.

*Risk Management*

The Agency subscribes to the Northern Ireland Office's risk management strategy and risk appetite, but has added its own gloss to the risk appetite statement to help explain what it means in the work encountered in the Agency. A risk management plan has been prepared and is reviewed each month by the Agency Strategy Group.

*Audit Committee*

The Agency's Audit Committee comprises the Agency's Chief Executive, Head of Operations and Head of Finance. Representatives from the Department's Internal Audit Branch and from the Agency's external auditors are invited to all Audit Committee meetings. The Audit Committee membership was enhanced during the year by the appointment of Olwen Laird (OPONI) as a Non-Executive Board Member, and John King (chairman of the NIO Departmental Audit Committee) as independent chairman.

## Payments to Suppliers

*Payment within 10 working days*

The former Prime Minister's statement of 8 October 2008 set a challenge to Government Departments to pay suppliers as soon as possible, with the aim of bringing forward all payments to within 10 days. Following the guidance issued by Sir Gus O'Donnell on 17 November 2008, the Department and Agencies revised internal timescales for the processing and payment of invoices with effect from 1 December 2008. The performance for 2009/10 showed that 95.9% of invoices were paid within 10 working days following receipt of a properly rendered invoice (2008/09 - 4 months to 31 March 2009 - 94.1%).

In addition the Department for Business Enterprise and Regulatory Reform launched a new code of practice in December 2008 to help increase the speed of payments between customers and their suppliers. The prompt payment code was developed in partnership with the Institute of Credit Management and aims to establish a clear and consistent policy in the payment of business bills. The Northern Ireland Office has shown its support and commitment to the principles of the code by becoming a signatory. Further details regarding this are available at www.promptpaymentcode.org.uk.

## International Financial Reporting Standards

The 2008 Budget announced that the annual financial statements of government departments and other entities in the public sector will be prepared using International Financial Reporting Standards (IFRS). Following a revision to the implementation timetable, these standards have been adapted as necessary for the public sector and have been used in preparation of the Agency's 2009-10 financial statements. In addition, comparative financial information for 2008-09 is restated along with opening balances at 1 April 2008.

The main impact of the adoption of IFRS relates to the presentation of the main statements; the disclosure of accounting policies; and to the liabilities of the Agency which for the first time includes an accrual for employee benefits (untaken holiday leave).

## Commitment to Environmental, Social and Community Issues

The Agency, in its primary role, supports and enhances the social well-being of community life in Northern Ireland through the operation of the statutory compensation schemes. The Criminal Damage Compensation Scheme seeks, amongst other things, to sustain the confidence of the business community, while the Criminal Injury Compensation Schemes seek to ensure that individual members of the community who have suffered as the victims of violent crime may avail of financial support.

Alongside this, the Agency seeks to provide outlets for staff to support the community through volunteering. Two days' additional leave is available each year for staff involved in voluntary activities.

The Agency continues to participate in a recycling scheme for toner cartridges. The photocopying and printing paper which we purchase contains 100% recycled material.

**Other Disclosures**

*Provisions*

The Statement of Financial Position at 31 March 2010 shows provisions for liabilities and charges of £46,099k. This valuation recognises that provisions will crystallize in future years and will be funded by Departmental funding. There is no reason to believe that this funding will not be forthcoming. For more details see Note 14 to the Accounts.

*Pensions*

Notes 1.12 and 4 of the Notes to the Accounts and the Remuneration Report on pages 13-17 provide details of the pensions liabilities of the Agency.

*Related Party Transactions*

No key managerial staff or other related parties has undertaken any material transactions with the Compensation Agency during the year.

*Charitable Donations*

There were no formal charitable donations in the year, however, donations were made to varying charities through fund raising activities carried out throughout the year by staff. These included coffee mornings, Friday Fry Day and raffles.

*Going Concern*

The Statement of Financial Position at 31 March 2010 shows negative Taxpayers' Equity of £48,565,000. This reflects the inclusion of liabilities falling due in future years which are to be financed by drawings from the UK Consolidated Fund. Such drawings will be from grants of Supply approved annually by the Northern Ireland Assembly, to meet the Net Cash Requirement of the Department of Justice of which the Compensation Agency is part.

Future financing of the Compensation Agency's liabilities is accordingly to be met by future grants of Supply to the Department of Justice and the application of future income, both to be approved annually by the Northern Ireland Assembly. There is no reason to believe that future approvals will not be forthcoming. It has accordingly been considered appropriate to adopt a going concern basis for the preparation of the Agency's financial statements for 2009-2010.

*Auditors*

The Agency's Accounts are audited by the Comptroller and Auditor General (C&AG) who is appointed under statute and reports to Parliament on the audit examination. His certificate and report are produced at pages 23-25. The notional audit fee for the year amounted to £16,200, (2008-2009 £14,250) which related to the audit of these financial statements and an audit of the 2009/10 shadow accounts restating the opening balances under International Financial Reporting Standards. The C&AG may also undertake other statutory activities that are not related to the audit of the Agency's financial statements such as Value for Money reports. No such activity took place during the year. As the Accounting Officer for the Compensation Agency, as far as I am aware, there is no relevant audit information of which the Agency's auditors are unaware. As Accounting Officer, I have taken all the steps that I ought to have taken to make myself aware of any relevant audit information and to establish that the Agency's auditors are aware of that information.

*Chief Executive and Directors*

Robert Crawford was Chief Executive during 2009-10 and left the Agency on 31st March 2010. He was replaced by Marcella McKnight with effect from 1st April 2010. Ray Jones was Head of Operations for the Agency and partially retired during the year. Disclosure of salary and pension information for these senior posts has been included in the remuneration report.

*Events occurring after the reporting period:*

*Devolution of policing and justice functions*

On 9 March 2010, the political parties in Northern Ireland agreed that policing and justice functions should devolve to the Northern Ireland Assembly on 12 April 2010. During the period up to the date of devolution, the Agency complied with the corporate governance and accountability framework arrangements issued by the Northern Ireland Office and also the guidance issued by HM Treasury, including Managing Public Money.

The Annual Report and Accounts of the Agency for the year ended 31 March 2010 relate entirely to the period before devolution and will be laid in Parliament. References continue to be made in this report to the

Northern Ireland Office as the parent Department during the reporting period. Further details are contained in Note 24.

When policing and justice functions in Northern Ireland were devolved to the Northern Ireland Assembly on 12 April 2010, the Department of Justice was established as a new Northern Ireland Department by the Department of Justice Act (Northern Ireland) 2010.

From this date, the Agency became an executive agency of the Department of Justice. As such, it now complies with the corporate governance and accountability framework arrangements issued by the Department of Justice and also the guidance issued by the Department of Finance and Personnel, including Managing Public Money Northern Ireland. The Annual Report and Accounts for years ended 31 March 2011 onwards will be laid in the Northern Ireland Assembly.

**Further Information**

Further information, including guides to the compensation schemes and the Agency's corporate and business plan, is available from:

The Personal Secretary to the Chief Executive
The Compensation Agency
Royston House
34 Upper Queen Street
Belfast BT1 6FD
Tel (028) 9024 7417
E-mail comp-agency@nics.gov.uk
Web www.compensationni.gov.uk

**Signed:**

Marcella McKnight

**MARCELLA McKNIGHT**
**Chief Executive**
**15 June 2010**

## REMUNERATION REPORT

### Remuneration Policy

All members of the senior management team are permanent civil servants. Their remuneration is determined in accordance with Civil Service pay agreements.

The remuneration of senior Civil Servants is set by the Prime Minister following independent advice from the Review Body on Senior Salaries.

In reaching its recommendations, the Review Body is to have regard to the following considerations:

- the need to recruit, retain and motivate suitably able and qualified people to exercise their different responsibilities;
- regional/local variations in labour markets and their effects on the recruitment and retention of staff;
- Government policies for improving the public services including the requirement on departments to meet the output targets for the delivery of departmental services;
- the funds available to departments as set out in the Government's departmental expenditure limits;
- the Government's inflation target.

The Review Body takes account of the evidence it receives about wider economic considerations and the affordability of its recommendations.

Further information about the work of the Review Body can be found at www.ome.uk.com.

### Service Contracts

Civil Service appointments are made in accordance with the Civil Service Commissioners' Recruitment Code. The Code requires appointments to be on merit on the basis of fair and open competition but also includes the circumstances when appointments may otherwise be made.

Unless otherwise stated below, the officials covered by this report hold appointments which are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Further information about the work of the Civil Service Commissioners can be found at www.civilservicecommissioners.gov.uk

**Salary and Pension Entitlements (Audited Information)**

For 2009-2010 the salary and other allowances of the Chief Executive and the Head of Operations (the other most senior member of the management team) were as follows:

| Name | 2009-2010 | | 2008-2009 | |
|---|---|---|---|---|
| | **Salary £000** | **Benefits In Kind £000** | **Salary £000** | **Benefits In Kind £000** |
| **Mr Robert Crawford** *Chief Executive* | 65-70 | NIL | 60-65 000 | N/A |
| **Mr Ray Jones** *Head of Operations* | 40-45 | NIL | 55-60 | NIL |

Salary

Salaries include gross salaries, allowances and performance bonuses payable. Ray Jones took partial retirement on 1st November 2009 which is reflected in the decrease in salary. Robert Crawford left the Agency on 31st March 2010 and was replaced by Marcella McKnight with effect from 1st April 2010.

Benefits in kind

The monetary value of benefits in kind covers any benefits provided by the employer and treated by the HM Revenue and Customs as a taxable emolument.  None of the above received benefits in kind.

**Pension Benefits (Audited Information)**

| Name | Real increase in pension and related lump sum at age 60<br>£000 | Total accrued pension at age 60 and related lump sum<br>£000 | CETV at 31/03/2009<br>£000 | CETV at 31/03/2010<br>£000 | Real increase in CETV after adjustment for inflation and changes in market investment factors<br>£000 |
|---|---|---|---|---|---|
| **Mr Robert Crawford**<br>*Chief Executive* | 0-2.5 | 20-25 | 363 | 408 | 22 |
| | 2.5-5<br>lump sum | 65-70<br>lump sum | | | |
| **Mr Ray Jones**<br>*Head of Operations* | (22.5-25)<br><br>(72.5-75)<br>Lump sum | 20-25 of which 20-25 is in payment<br>135-140<br>Lump sum of which 135-140 has been paid | 575 | 8 | (611) |

**Civil Service Pensions**

Pension benefits are provided through the Civil Service pension arrangements. From 30 July 2007, civil servants may be in one of four defined benefit schemes; either a final salary scheme (**classic, premium** or **classic plus**); or a whole career scheme (**nuvos**). These statutory arrangements are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under **classic, premium, classic plus** and **nuvos** are increased annually in line with changes in the Retail Prices Index (RPI). Members joining from October 2002 may opt for either the appropriate defined benefit arrangement or a 'money purchase' stakeholder pension with an employer contribution (**partnership** pension account).

Employee contributions are set at the rate of 1.5% of pensionable earnings for **classic** and 3.5% for **premium, classic plus** and **nuvos**. Benefits in **classic** accrue at the rate of 1/80th of final pensionable earnings for each year of service. In addition, a lump sum equivalent to three years initial pension is payable on retirement. For **premium**, benefits accrue at the rate of 1/60th of final pensionable earnings for each year of service. Unlike **classic**, there is no automatic lump sum. **Classic plus** is essentially a hybrid with benefits for service before 1 October 2002 calculated broadly as per **classic** and benefits for service from October 2002 worked out as in **premium.** In **nuvos** a member builds up a pension based on his pensionable earnings during their period of scheme membership. At the end of the scheme year (31 March) the member's earned pension account is credited with 2.3% of their pensionable earnings in that scheme year and the accrued pension is uprated in line with RPI. In all cases members may opt to give up (commute) pension for a lump sum up to the limits set by the Finance Act 2004.

The **partnership** pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3% and 12.5% (depending on the age of the member) into a stakeholder pension product chosen by the employee from a panel of three providers. The employee does not have to contribute, but where they do make contributions, the employer will match these up to a limit of 3% of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.8% of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are already at or over pension age. Pension age is 60 for members of **classic**, **premium** and **classic plus** and 65 for members of **nuvos**.

Further details about the Civil Service pension arrangements can be found at the website www.civilservice-pensions.gov.uk

**Cash Equivalent Transfer Values**

A Cash Equivalent Transfer Value (CETV) is the actuarially assessed capitalised value of the pension scheme benefits accrued by a member at a particular point in time. The benefits valued are the member's accrued benefits and any contingent spouse's pension payable from the scheme. A CETV is a payment made by a pension scheme or arrangement to secure pension benefits in another pension scheme or arrangement when the member leaves a scheme and chooses to transfer the benefits accrued in their former scheme. The pension figures shown relate to the benefits that the individual has accrued as a consequence of their total membership of the pension scheme, not just their service in a senior capacity to which disclosure applies.

The figures include the value of any pension benefit in another scheme or arrangement which the member has transferred to the Civil Service pension arrangements. They also include any additional pension benefit accrued to the member as a result of their buying additional pension benefits at their own cost. CETVs are worked out within the guidelines and framework prescribed by the Institute and Faculty of Actuaries and do not take account of any actual or potential reduction to benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

**Real increase in CETV**

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period.

**Signed:**

**MARCELLA McKNIGHT**
**Chief Executive**
**15 June 2010**

# ACCOUNTS

## STATEMENT OF AGENCY'S AND CHIEF EXECUTIVE'S RESPONSIBILITIES

Under Section 7(2) of the Government Resources and Accounts Act 2000 the Agency is required to prepare a statement of accounts for each financial year, in conformity with a HM Treasury direction, detailing the resources acquired, held or disposed of during the year and the use of resources by the Agency during the year.

The accounts are prepared on an accruals basis so as to give a true and fair view of the income and expenditure, changes in taxpayers' equity and cash flows of the Agency for the year ended 31 March 2010, and of the state of affairs as at that date.

In preparing the accounts the Agency is required to comply with the Financial Reporting Manual prepared by the HM Treasury, and in particular to:

- observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;

- make judgements and estimates on a reasonable basis;

- state whether applicable accounting standards, as set out in the Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and

- prepare the accounts on a going concern basis.

The Chief Executive of the Compensation Agency has been appointed as the Accounting Officer for the Agency. The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Agency's assets, are set out in the Accounting Officers' Memorandum, issued by the HM Treasury and published in "Managing Public Money".

## STATEMENT ON INTERNAL CONTROL

### 1 Scope of responsibility

As Accounting Officer, I have responsibility for maintaining a sound system of internal control that supports the achievement of the Compensation Agency policies, aims and objectives, whilst safeguarding the public funds and Agency assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money.

The Department's sponsoring division monitors the Agency's progress towards achievement of the policies, aims and objectives and key performance targets as agreed by the Minister through quarterly performance reviews. These reviews enable the Department to provide the Agency with an informed, critical and independent view of the potential risks to the Agency.

### 2 The purpose of the system of internal control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Agency policies, aim and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically. The system of internal control has been in place in the Compensation Agency for the year ended 31 March 2010 and up to the date of approval of the Annual Report and Accounts, and accords with HM Treasury guidance.

### 3 Capacity to handle risk

The Agency recognises that risk management is an integral part of its business operations and that the identification and management of risks may affect the achievement of its Ministerial Key Performance Targets.

The Agency's senior management team comprises the Agency Strategy Group which provides support and assistance to me, as Chief Executive, across all aspects of the Agency's activities. One of the responsibilities of this group is to ensure that risk management is embedded into the Agency's culture. Year end assurance statements were completed by each of the senior management team covering the key areas for which they are responsible. They confirm the steps that have been taken to implement effective internal control during the course of the year. The Accounting Officer, Head of Operations and Agency Strategy Group are accountable for risk management within their areas of responsibility and throughout the Agency the active management of risk is an ongoing daily activity.

Risk management is a standing agenda item at senior management monthly meetings where the Group considers early warning signs of risks materialising and significant control failings or weaknesses.

## 4 The risk and control framework

The Agency has adopted the guidance contained in Northern Ireland Office's (NIO) "Risk Management – A Practical Guide" which aims to ensure that effective risk management processes improve the quality of decision making and the ability to deliver.

The Agency aspires to an approach to risk management which is mainstreamed within everyday work, where managers consider and continuously review risk as part and parcel of the Agency's normal operations. The assessment of risk is carried out alongside the development of the business plans. During the planning process the Agency refers to the Corporate Risk Appetite Framework which presents a risk profile identifying the areas of high and low risk tolerance

The Agency adopts a combined 'top down' and bottom up' approach. As part of the planning process all senior managers are asked to review their own business areas and assess the risks faced within their area of responsibility. The Agency Strategy Group considers these operational risks and in line with strategic planning priorities determines the high level risks that could affect achievement of the Department's strategic objectives for the year. To ensure that all risks are identified they are broken down using risk categories as defined in the NIO toolkit, which groups risk under the headings of: Human Resources Risks, External Risks, Activity/Operational Risks and Finance Risks. Risks are prioritised using a risk matrix, which assesses impact/likelihood. Each risk is assigned to a risk owner/manager who will take the appropriate steps to manage and control the risk.

Risk management is discussed at monthly management and branch meetings and any updates required are considered by senior management

The Agency has fully embraced the NIO's (now DoJ's) Information Assurance policy and procedures and is represented, at Chief Executive level on the DoJ Information Risk Owners Council (IROC) which comprises senior business owners across the Departmental family and holds them to account for the ownership and management of information assurance risks within their respective business areas. In line with IROC requirements, the Agency has appointed a Security Manager to oversee delivery of the Information Assurance policy and procedures and to implement the Security Policy Framework.

The Agency has a responsibility to safeguard the information it holds, both in electronic and hard copy format, and has in place data security procedures which mirror those of NIO to minimize the risk of compromise of that information.

An Agency information assurance plan is in place with progress reported to and overseen by the Audit Committee. All laptops and workstations throughout the Agency which contain classified information have been encrypted and access to floppy disk, DVD drives and USB ports disabled.

There were no protected personal data related incidents during the year.

**5 Review of effectiveness**

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control. My review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the executive managers within the Agency who have responsibility for the development and maintenance of the internal control framework, and comments made by the external auditors in their management letter and other reports. I have been advised on the implications of the results of my review of the effectiveness of the system of internal control by the ASG and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

I have established the following processes to maintain and review the effectiveness of the system of internal control and risk management:

- The Agency's Audit Committee comprises the Chief Executive, the Head of Operations, the Head of Finance and IT. The Agency's internal and external auditors are invited to attend in an advisory capacity. Olwen Laird (OPONI) joined the audit committee during the year as Non-Executive Board Member, and John King (chairman of the NIO Departmental Audit Committee) agreed to temporarily chair the audit committee as an external representative. The committee meets periodically to advise the Chief Executive on, inter alia, the strategic processes for risk, control and governance;

- The Agency agrees an audit plan with the internal auditors every year. The subject area for the audit is specifically chosen to ensure that new or emerging controls are fully tested or to ensure that existing controls continue to operate in an effective manner; and

- The Agency Strategy Group acts as the main decision-making forum for the Agency. In fulfilling this role, the Group also provides a corporate challenge function to the system of internal control. Year end assurance statements were completed by all members of the group to support effective internal controls.

**6 Audit Committee**

In June 2009 due to the lack of an external representative, the Audit Committee convened as an executive committee. In 2010-11 the Committee will increase its external representation.

**7 HR Connect**

The HR Connect payroll service Contractor had planned to undertake ten quality assurance reviews which, when combined with the direct audit work undertaken by DFP Internal Audit, would facilitate the provision of an overall audit assurance. The Contractor, however, has only completed two of its ten planned reviews and those are considered by DFP Internal Audit to lack rigour, breadth and depth. As such DFP Internal Audit was unable to provide additional assurance on those areas. Therefore, although satisfactory assurance was provided in six audits undertaken by DFP Internal Audit, a limited assurance rating was provided for HR Connect overall. DFP Internal Audit will undertake all audits in HR Connect from 2010–11 onwards.

**8 Significant internal control problems**

There were no significant internal control problems identified during the year.

**Signed:**

Marcella McKnight

**MARCELLA McKNIGHT**
**Chief Executive**
**15 June 2010**

## THE CERTIFICATE AND REPORT OF THE COMPTROLLER AND AUDITOR GENERAL TO THE HOUSE OF COMMONS

I certify that I have audited the financial statements of the Compensation Agency for the year ended 31 March 2010 under the Government Resources and Accounts Act 2000. These comprise the Operating Cost Statement, the Statement of Changes in Taxpayers' Equity, the Statement of Financial Position, the Statement of Cash Flows and the related notes. These financial statements have been prepared under the accounting policies set out within them. I have also audited the information in the Remuneration Report that is described in that report as having been audited.

### Respective responsibilities of the Agency, the Chief Executive and auditor

As explained more fully in the Statement of the Agency's and Chief Executive's Responsibilities, the Agency and Chief Executive are responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. My responsibility is to audit the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me and my staff to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Agency's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Agency; and the overall presentation of the financial statements.

In addition, I am required to obtain evidence sufficient to give reasonable assurance that the expenditure and income reported in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

### Opinion on regularity

In my opinion, in all material respects, the expenditure and income have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

## ACCOUNTS

### Opinion on the financial statements

In my opinion:

- the financial statements give a true and fair view, of the state of the Agency's affairs as at 31 March 2010, and of the net operating cost, changes in taxpayers' equity and cash flows for the year then ended; and

- the financial statements have been properly prepared in accordance with the Government Resources and Accounts Act 2000 and HM Treasury directions issued thereunder.

### Opinion on other matters

In my opinion:

- the part of the Remuneration Report to be audited has been properly prepared in accordance with HM Treasury directions made under the Government Resources and Accounts Act 2000; and

- the information given in the Annual Report and Management Commentary for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Matters on which I report by exception

I have nothing to report in respect of the following matters which I report to you if, in my opinion:

- adequate accounting records have not been kept; or

- the financial statements are not in agreement with the accounting records or returns; or

- I have not received all of the information and explanations I require for my audit; or

- the Statement on Internal Control does not reflect compliance with HM Treasury's guidance.

## ACCOUNTS

### Report

I have no observations to make on these financial statements.

*Amyas C E Morse*
*Comptroller and Auditor General*
*National Audit Office*
*157-197 Buckingham Palace Road*
*Victoria*
*London*
*SW1W 9SP*
*Date: 29 June 2010*

## THE COMPENSATION AGENCY

## OPERATING COST STATEMENT
## FOR THE YEAR ENDED 31 MARCH 2010

| | | | | | |
|---|---|---|---|---|---|
| | | | | **2009-10**<br><br>**£000** | **Restated 2008-09**<br>**£000** |
| | **Note** | **Staff Costs** | **Other Costs** | **Income** | |
| **Administration Costs** | | | | | |
| Staff costs | 4 | 2,080 | | | 2,087 |
| Other administration costs | 5 | | 1,542 | | 1,761 |
| **Programme Costs** | | | | | |
| Programme costs | 6 | | 13,909 | | 49,791 |
| Income | 7 | | | (167) | (172) |
| **Totals** | | **2,080** | **15,451** | **(167)** | **53,467** |
| **Net Operating Cost** | | | | **17,364** | **53,467** |

The Notes on pages 30 to 51 form part of these Accounts.

## THE COMPENSATION AGENCY

## STATEMENT OF FINANCIAL POSITION
## AS AT 31 MARCH 2010

| | Note | 2009-10<br>£000 | Restated<br>2008-09<br>£000 | Restated<br>1 April 2008<br>£000 |
|---|---|---|---|---|
| **Non-current assets** | | | | |
| Property, plant and equipment | 8 | 275 | 297 | 410 |
| Intangible assets | 9 | 165 | 186 | 373 |
| ***Total non-current assets*** | | ***440*** | ***483*** | ***783*** |
| **Current assets** | | | | |
| Trade and Other receivables | 11 | 101 | 64 | 82 |
| ***Total Current assets*** | | ***101*** | ***64*** | ***82*** |
| **Total assets** | | **541** | **547** | **865** |
| **Current liabilities** | | | | |
| Trade and other payables | 13 | 426 | 477 | 665 |
| Bank overdraft | 12 | 2,581 | 805 | 1,892 |
| ***Total current liabilities*** | | ***3,007*** | ***1,282*** | ***2,557*** |
| **Non-current assets less net current liabilities** | | **(2,466)** | **(735)** | **(1,692)** |
| **Non current liabilities** | | | | |
| Provisions | 14 | 46,099 | 58,911 | 41,679 |
| ***Total non-current liabilities*** | | ***46,099*** | ***58,911*** | ***41,679*** |
| **Assets less liabilities** | | **(48,565)** | **(59,646)** | **(43,371)** |
| **Taxpayers' Equity** | | | | |
| General fund | | (48,617) | (59,713) | (43,436) |
| Revaluation reserve | | 52 | 67 | 65 |
| **Total taxpayers equity** | | **(48,565)** | **(59,646)** | **(43,371)** |

**Signed:**

Marcella McKnight

**MARCELLA McKNIGHT**
**Chief Executive**
**15 June 2010**

The Notes on pages 30 to 51 form part of these Accounts.

## THE COMPENSATION AGENCY

## STATEMENT OF CASH FLOWS
## FOR THE YEAR ENDED 31 MARCH 2010

| | Notes | 2009-10<br>£000 | Restated<br>2008-09<br>£000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Net operating cost | | (17,364) | (53,467) |
| Notional costs | 5 | 322 | 241 |
| Non-cash costs – administration | 5 | 129 | 345 |
| Non-cash costs - programme | 6 | (1,838) | (1,760) |
| (Increase)/Decrease in trade and other receivables | 11 | (37) | 18 |
| Increase in provisions | 14 | 15,747 | 51,550 |
| less movements in receivables relating to items not passing through the OCS | | | |
| Increase/(Decrease) in trade payables and accruals | 13 | 15 | (241) |
| less movements in payables relating to items not passing through the OCS | | | |
| Use of provisions | 14 | (28,559) | (34,318) |
| ***Net cash outflow from operating activities*** | | ***(31,585)*** | ***(37,632)*** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 8 | (102) | (32) |
| Purchase of intangible assets | 9 | (25) | (99) |
| Items funded by parent | 8 | 2 | – |
| Proceeds of disposal of property, plant and equipment | 5,8 | – | 47 |
| Increase/(Decrease) in non-current asset accrual | 13 | (52) | 39 |
| ***Net cash outflow from investing activities*** | | ***(177)*** | ***(45)*** |
| **Cash flows from financing activities** | | | |
| Funding from parent | | 30,000 | 38,750 |
| Receipt (paid)/due to the Consolidated fund | 13 | (14) | 14 |
| ***Net financing*** | | ***29,986*** | ***38,764*** |
| **Net increase/(decrease) in cash and cash equivalents in the period** | **12** | **(1,776)** | **1,087** |
| **Cash and cash equivalents at the beginning of the period** | **12** | **(805)** | **(1,892)** |
| **Cash and cash equivalents at the end of the period** | **12** | **(2,581)** | **(805)** |

The Notes on pages 30 to 51 form part of these Accounts.

## THE COMPENSATION AGENCY

## STATEMENT OF CHANGES IN TAXPAYERS' EQUITY FOR THE YEAR ENDED 31 MARCH 2010

| | Note | General Fund £000 | Revaluation Reserve £000 | Total Reserves £000 |
|---|---|---|---|---|
| **Balance at 31 March 2008** | | **(43,393)** | **65** | **(43,328)** |
| Changes in accounting policy | 2 | (43) | – | (43) |
| **Restated balance at 1 April 2008** | | **(43,436)** | **65** | **(43,371)** |
| **Changes in taxpayers' equity for 2008-09** | | | | |
| Net (loss) on revaluation of property, plant and equipment | 8 | – | 2 | 2 |
| Non-cash charges – cost of capital administration | 5 | (41) | – | (41) |
| Non-cash charges – cost of capital programme | 6 | (1,760) | – | (1,760) |
| Non-cash charges – auditor's remuneration | 5 | 14 | – | 14 |
| Non-cash charges – Finance/Personnel services from parent Department | 5 | 97 | – | 97 |
| Non-cash charges – Services of the Department of Finance and Personnel | 5 | 15 | – | 15 |
| Non-cash charges – Information Services from parent Department | 5 | 115 | – | 115 |
| Net operating cost for the year | | (53,467) | – | (53,467) |
| **Total recognised Income and expense for 2008-09** | | **(55,027)** | **2** | **(55,025)** |
| Funding from Parent | | 38,750 | – | 38,750 |
| **Balance at 31 March 2009** | | **(59,713)** | **67** | **(59,646)** |
| **Changes in taxpayers' equity for 2009-10** | | | | |
| Net gain/(loss) on revaluation of property, plant and equipment | 8 | – | 15 | 15 |
| Non-cash charges – cost of capital administration | 5 | (56) | – | (56) |
| Non-cash charges – cost of capital programme | 6 | (1,838) | – | (1,838) |
| Non-cash charges – auditor's remuneration | 5 | 16 | – | 16 |
| Non-cash charges – Finance/Personnel services from parent Department | 5 | 138 | – | 138 |
| Non-cash charges – Services of the Department of Finance and Personnel | 5 | 15 | – | 15 |
| Non-cash charges – Information Services from parent Department | 5 | 153 | – | 153 |
| Assets funded by parent department | 8 | 2 | – | 2 |
| Transfers between reserves | | 30 | (30) | – |
| Net operating cost for the year | | (17,364) | – | (17,364) |
| **Total recognised Income and expense for 2009-10** | | **(18,904)** | **(15)** | **(18,919)** |
| Funding from Parent | | 30,000 | – | 30,000 |
| **Balance at 31 March 2010** | | **(48,617)** | **52** | **(48,565)** |

The Notes on pages 30 to 51 form part of these Accounts.

## NOTES TO THE AGENCY'S ACCOUNTS

### 1 STATEMENT OF ACCOUNTING POLICIES

These financial statements have been prepared in accordance with the 2009-10 HM Treasury Financial Reporting Manual (FReM). The accounting policies contained in the FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context. Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be most appropriate to the particular circumstances of the Compensation Agency for the purpose of giving a true and fair view has been selected. The particular policies adopted by the Compensation Agency are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

#### 1.1 Accounting Convention

These accounts have been prepared under the historical cost convention modified to account for the revaluation of property, plant and equipment, and intangible assets.

#### 1.2 Property, plant and equipment

The Agency's property, plant and equipment comprise Information Technology, Furniture and Fittings and Leasehold Improvements, which are revalued annually using appropriate indices compiled by the Office for National Statistics and the Royal Institute of Chartered Surveyors. The threshold for capitalisation of property, plant and equipment assets is normally £1,000. However, in keeping with the Departmental policy, personal computers are capitalised even where their purchase cost is less than £1,000. In addition, the Agency adopts a grouping policy for certain items that meet the definition of a plant and equipment but with individual values less than £1,000. Grouped assets are only recognised in the Accounts when the individual items within the group are similar in nature and use. Office furniture is included as a grouped asset within Furniture and Fittings.

Where appropriate, surpluses and deficits on revaluation are taken to the Revaluation Reserve and permanent reductions in the value of non-current assets are charged to the Operating Cost Statement.

#### 1.3 Intangible assets

The Agency recognises software as intangible assets where that software is seen to be providing a service to the public. Any additional development of that software is also capitalised. Purchases of software licences are capitalised as intangible assets where the purchase cost of an individual licence exceeds £1,000. Licences for general office productivity applications are included within the purchase cost of a PC and capitalised as property, plant and equipment. Software licences are adjusted to their current value each year. In the main, the software licences used by the Agency are open-ended i.e. they do not expire after a given period. Therefore, they are written off over the expected useful lives of the software to which they relate.

### 1.4 Depreciation and amortisation

Depreciation is provided on all non-current assets at rates calculated to write off the cost (less any estimated residual value) of each asset over its expected useful life as detailed below.

| | |
|---|---|
| Information Technology | 5–11 years |
| Furniture and Fittings | 5–10 years |
| Purchased Software Licences and development | 3–8 years |
| Leasehold Improvements | 2–7 years (remaining lease term upon capitalisation) |

Non-current assets are depreciated, on a straight-line basis, from the month in which they were acquired. All assets have been re-valued by reference to indices produced by the Office for National Statistics, HM Treasury or the Royal Institute of Chartered Surveyors.

### 1.5 Inventories

Inventories consist only of consumable items and are therefore expensed in the year of purchase.

### 1.6 Operating income

Operating income is income that relates directly to the operating activities of the Compensation Agency. The Secretary of State has powers to recover compensation and costs from offenders of crimes in respect of which criminal compensation has been paid (See Note 20). Recovery is not normally sought from the earnings or assets of an offender. However, recovery is sought from an offender who subsequently becomes entitled to State compensation and any amounts so recovered are included as Programme Income.

### 1.7 VAT

VAT is not recoverable by the Agency. Where applicable, sums in the accounts are inclusive of VAT.

### 1.8 Provisions

The Agency provides for obligations arising from claims for compensation that were received by the Agency on or before the Statement of Financial Position date. The amounts so provided are based on the Agency's best estimate of the expenditure needed to settle these obligations.

### 1.9 Prior period adjustments

There were no adjustments made in the prior period.

### 1.10 Administration and programme expenditure

The Operating Cost Statement is analysed between administration and programme costs. Administration costs reflect the cost of running the Compensation Agency as defined in the Financial Reporting Manual. Programme costs reflect non-administration costs, including payments of compensation and other disbursements by the Compensation Agency that are related to claims for compensation.

### 1.11 Capital charge

A charge, reflecting the cost of capital utilised by the Agency, is included in operating costs. The charge is calculated at the real rate set by HM Treasury (currently 3.5 per cent) on the average carrying amount of all assets less liabilities, except for property, plant and equipment and intangible assets where the cost of capital charge is based on opening values, adjusted pro rata for in-year:

- additions at cost
- disposals as valued in the opening statement of financial position (plus any subsequent capital expenditure prior to disposal)
- impairments at the amount of the reduction of the opening statement of financial position value (plus any subsequent capital expenditure)
- depreciation of property, plant and equipment and amortisation of intangible assets;
- cash/bank overdraft position

### 1.12 Pensions

Past and present employees are covered by the provisions of the Civil Service Pension Schemes which are described in Note 4 and in the Remuneration Report on page 13. The defined benefit elements of the schemes are unfunded and are non-contributory except in respect of dependants' benefits. The Agency recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from employees' services by payment to the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)) and the Principal Civil Service Pension Scheme (PCSPS) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on the PCSPS (NI) or the PCSPS. In respect of the defined contribution schemes, the Agency recognises the contributions payable for the year

### 1.13 Contingent liabilities

In addition to contingent liabilities disclosed in accordance with IAS 37, the agency discloses for Parliamentary reporting and accountability purposes certain statutory and non-statutory contingent liabilities where the likelihood of a transfer of economic benefit is remote, but which have been reported to Parliament in accordance with the requirements of Managing Public Money.

Where the time value of money is material, contingent liabilities which are required to be disclosed under IAS 37 are stated at discounted amounts and the amount reported to Parliament separately noted. Contingent liabilities that are not required to be disclosed by IAS 37 are stated at the amounts reported to Parliament.

### 1.14 Staff costs

Under IAS19 Employee Benefits legislation, all staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any untaken leave as at the year end. The cost of untaken leave has been determined using data from employee leave and flexible working records.

### 1.15 Critical accounting estimates and key judgements

The preparation of financial statements in conformity with IFRS requires the use of accounting estimates and assumptions. It also requires management to exercise its judgement in the process of applying the Agency's accounting policies. We continually evaluate our estimates, assumptions and judgements based on available information and experience. As the use of estimates is inherent in financial reporting, actual results could differ from these estimates. The areas involving a higher degree of judgement or complexity are described below:

*Provisions for compensation:*

Provisions have been made for compensation which will be payable at a future date. These provisions are estimates and the actual costs and timing of future cash flows are dependent on future events. Any difference between expectations and the actual future liability will be accounted for in the period when such determination is made.

### 1.16 Accounting standards, interpretations and amendments to published standards adopted in the year ended 31 March 2010

The Agency implemented IFRS 1 First-time Adoption of International Financial Reporting Standards (IFRS) with the date of transition to IFRS being 1 April 2008 for the purposes of preparing the opening IFRS statement of financial position. The Agency also applied IFRS 8 by reporting segments in note 3.

The following standards had a material impact on the financial statements:

IAS 19 Employee Benefits

Details of the financial impact of these standards are contained in Note 2. Any adjustments arising from differing accounting policies resulting from the application of IFRS for the first time have been taken through the General Fund.

The Agency has reviewed the remaining standards, interpretations and amendments to published standards that became effective during 2009-10 and which are relevant to its operations. The adoption of these standards has not had a significant impact on the Agency's financial position or results.

### 1.17 Accounting standards, interpretations and amendments to published standards not yet effective

Certain new standards, interpretations and amendments to existing standards have been published that are mandatory for the Agency's accounting periods beginning on or after 1 April 2010 or later periods, but which the Agency has not adopted early. Other than as outlined in the table below, the Department considers that these standards are not relevant to its operations

| Standard | Description of revision | Application Date | Comments |
|---|---|---|---|
| IAS 24 | Related Party Disclosures — Revised definition of related parties | Annual periods beginning on or after 1 January 2011 | Inclusion of a partial exemption for government-related entities. Given that the FReM interprets the related party requirements significantly to reduce the disclosure on transactions between public sector entities it is unlikely that this will have significant impact. |

In addition, the Agency has considered the additional or revised accounting standards and new (or amendments to) interpretations contained within the Government Financial Reporting Manual (FReM) 2010-11. Other than as outlined in the table below, the Agency considers that these changes are not relevant to its operations.

| Chapter in FReM 2010-11 | Area affected | Description of Revision | Comments |
|---|---|---|---|
| 8 | Impairments | An adaptation of IAS 36 Impairment of Assets to allow the scoring of all impairments that caused by a clear consumption of economic benefit to the Operating Cost Statement. | Clarification surrounding budgetary treatment. Unlikely to have a significant impact. |
| 11 | Income and Expenditure | The removal of Cost of Capital charging from accounts. | Applies to all public sector bodies. Guidance issued by HM Treasury means that this change is budgetary neutral. It will however mean an increased level of overall operating cost for the Agency. |

The application date for these FReM changes is 1 April 2010.

## 2. FIRST TIME ADOPTION OF IFRS

### 2.1 Reconciliation of UK GAAP reported taxpayers' equity to IFRS at the date of transition 1 April 2008

| | General Fund £000 | Revaluation reserve £000 |
|---|---|---|
| **Taxpayers' equity at 31 March 2008 under UK GAAP** | (43,393) | 65 |
| *Adjustments for:* | | |
| IAS 19 Employee Benefits | (43) | – |
| **Taxpayers' equity at 1 April 2008 under IFRS** | **(43,436)** | **65** |

### 2.2 Reconciliation of GAAP reported taxpayers' equity to IFRS at the end of final UK GAAP reporting period 31 March 2009

| | General Fund £000 | Revaluation reserve £000 |
|---|---|---|
| **Taxpayers' equity at 31 March 2009 under UK GAAP** | (59,669) | 67 |
| Adjustments for: | | |
| IAS 19 Employee Benefits | (44) | – |
| **Taxpayers' equity at 1 April 2009 under IFRS** | **(59,713)** | **67** |

### 2.3 Reconciliation of UK GAAP reported net operating cost to IFRS for the year ended 31 March 2009

| | £000 |
|---|---|
| **Net operating costs for 2008-09 under UK GAAP** | 53,466 |
| *Adjustments for:* | |
| IAS 19 Employee Benefits | 1 |
| **Net Operating cost for 2008-09 under IFRS** | **53,467** |

### 2.4 Reclassification of case management system and associated software from Property, plant and equipment to Intangible assets under IAS38.

| | Property, plant and equipment £000 | Intangible Assets £000 |
|---|---|---|
| **Non-current assets at 31 March 2008 under UK GAAP** | 727 | 56 |
| *Adjustments for:* | | |
| IAS 38 Intangibles | (317) | 317 |
| **Non-current assets at 1 April 2008 under IFRS** | **410** | **373** |

## 3 ANALYSIS OF NET EXPENDITURE BY SEGMENT

| | Criminal Injuries Tariff Scheme £000 | Criminal Injuries (1988 Order) £000 | Criminal Damage £000 | Justice and Security Act £000 | Total £000 |
|---|---|---|---|---|---|
| **2009/10** | | | | | |
| Gross expenditure | 12,990 | 1,596 | 2,462 | 483 | 17,531 |
| Income | (138) | (24) | (5) | – | (167) |
| Net Expenditure | **12,852** | **1,572** | **2,457** | **483** | **17,364** |
| **2008/09** | | | | | |
| Gross expenditure | 15,852 | 17,784 | 19,995 | 8 | 53,639 |
| Income | (145) | (23) | (4) | - | (172) |
| Net Expenditure | **15,707** | **17,761** | **19,991** | **8** | **53,467** |

The main compensation schemes are reported to management on a monthly basis. On these schemes, additional provision is required for new claims received, and for any revaluation of claims in hand. The detail above shows the value of additional provision required for these schemes during the year including professional fees and charges, offset by any reimbursements received for claims under those schemes. Staff costs, running costs and associated non-cash costs are then apportioned against the individual schemes giving the total cost to run the scheme for that year.

## 4 STAFF NUMBERS AND COSTS

Staff costs comprise:

| | 2009/10 £000 | | | Restated 2008/09 £000 | | |
|---|---|---|---|---|---|---|
| | Permanent | Other | **Total** | Permanent | Other | **Total** |
| Salaries and Wages | 1,679 | – | **1,679** | 1,655 | 32 | **1,687** |
| Social Security Costs | 120 | – | **120** | 118 | – | **118** |
| Pension Costs | 281 | – | **281** | 282 | – | **282** |
| **Total** | **2,080** | **–** | **2,080** | **2,055** | **32** | **2,087** |

The Principal Civil Service Pension Scheme (PCSPS) and the Principal Civil Service Pension Scheme (NI) (PCSPS (NI)) are unfunded multi-employer defined benefit schemes but the Compensation Agency is unable to identify its share of the underlying assets and liabilities. The most up to date valuation was carried out as at 31 March 2007. Details of these valuations are available in the resource accounts of the Cabinet Office: Civil Superannuation (www.civilservice-pensions.gov.uk) or in the PCSPS(NI) resource accounts (www.civilservicepensions-ni.gov.uk).

For 2009-2010, employer's contributions of £280,756 were payable to the PCSPS and the PCSPS (NI) (2008-2009; £275,679) at one of four rates in the range 16.5 to 23.5 per cent of pensionable pay based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. From 2010-11, the rates will be in the range 18% to 25%. The contribution rates are set to meet the cost of the benefits accruing during 2009-10 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership account, a stakeholder pension with an employer contribution. There were no contributions due to the partnership pension providers or prepaid contributions at the Statement of Financial Position date.

## Average number of persons employed

The average number of full-time equivalent persons employed during the year was:

| *Number of Employees* | **2009/10** | **2008/09** |
|---|---|---|
| Directly employed | 70 | 70 |
| Other | - | 1 |
| **Total** | **70** | **71** |

## 5 OTHER ADMINISTRATIVE COSTS

| | 2009/10<br>£000 | Restated<br>2008/09<br>£000 |
|---|---|---|
| Rentals under operating leases | 200 | 200 |
| Other Accommodation Costs | 293 | 343 |
| Operational computing expenses | 309 | 293 |
| Advisory services | 141 | 149 |
| Printing and stationery | 22 | 69 |
| Postage | 43 | 42 |
| Office equipment | 6 | 18 |
| Other office services | 7 | 16 |
| Consultancy fees | 22 | 13 |
| Training | 17 | 11 |
| Telecommunications | 20 | 9 |
| Travel, Subsistence and hospitality | 5 | 7 |
| Professional fees and publications | 6 | 5 |
| **Total cash costs** | **1,091** | **1,175** |
| *Non-cash items:* | | |
| Depreciation | 178 | 385 |
| Permanent Diminution | – | 2 |
| Loss/(Gain) on Disposal of Property, Plant, Equipment | 6 | (1) |
| Loss/(Gain) on Disposal of Intangibles | 1 | – |
| Cost of Capital | (56) | (41) |
| **Total non-cash (admin) costs** | **129** | **345** |
| **Notional costs* | | |
| Finance & Personnel Services provided by Parent Department | 138 | 97 |
| Audit Fees | 16 | 14 |
| Services provided by Department of Finance & Personnel | 15 | 15 |
| Information Services provided by Parent Department | 153 | 115 |
| **Total notional costs** | **322** | **241** |
| **Total** | **1,542** | **1,761** |

*Certain chargeable services are provided without the transfer of cash. In addition, other costs are added to the accounts in order that they reflect the full economic cost of provision. The services provided by the Department of Finance and Personnel represent the provision of network management and operator services in respect of the Agency's use of the Government Telephone Network

## 6 PROGRAMME COSTS

| | 2009/10<br>£000 | Restated<br>2008/09<br>£000 |
|---|---|---|
| **Non cash items:** | | |
| **Compensation provided for in year:** | | |
| Criminal Injury (1988 Order) | 2,410 | 17,319 |
| Criminal Injury Tariff Scheme (2002 Order) | 10,375 | 13,776 |
| Criminal Damage | 1,782 | 18,648 |
| Terrorism Act 2000 | 440 | 203 |
| | **15,007** | **49,946** |
| **Related Costs provided for in year:** | | |
| Legal Services and Court Expenses | (87) | 1,303 |
| Professional Advisors | 353 | 73 |
| Medical Services | 471 | 226 |
| Other Fees & Expenses | 3 | 3 |
| | **740** | **1,605** |
| Cost of Capital | (1,838) | (1,760) |
| **Total** | **13,909** | **49,791** |

## 7 INCOME

Income during the year was as follows:

| | 2009/10 £000 | Restated 2008/09 £000 |
|---|---|---|
| Programme Income from reimbursements | 167 | 172 |
| **Total** | **167** | **172** |

## 8 PROPERTY, PLANT AND EQUIPMENT

| | Leasehold Improvements £000 | Information Technology £000 | Furniture and Fittings £000 | Total £000 |
|---|---|---|---|---|
| **Cost or Valuation** | | | | |
| Restated at 1 April 2008 | 278 | 365 | 160 | **803** |
| Additions | 6 | 12 | 14 | **32** |
| Disposals | (62) | (79) | (24) | **(165)** |
| Revaluation of Property, Plant & Eqpt | – | – | 4 | **4** |
| Permanent Diminution in Value | – | (7) | – | **(7)** |
| At 31 March 2009 | **222** | **291** | **154** | **667** |
| **Accumulated Depreciation** | | | | |
| Restated at 1 April 2008 | 74 | 247 | 72 | **393** |
| Provided in Year | 37 | 46 | 16 | **99** |
| Disposals | (18) | (79) | (22) | **(119)** |
| Revaluation | – | – | 2 | **2** |
| Permanent Diminution in Value | – | (5) | – | **(5)** |
| At 31 March 2009 | **93** | **209** | **68** | **370** |
| **Net Book Value** | | | | |
| **At 31 March 2009** | **129** | **82** | **86** | **297** |
| **Restated at 1 April 2008** | **204** | **118** | **88** | **410** |

**Asset Financing:**

| | | | | |
|---|---|---|---|---|
| Owned | 129 | 82 | 86 | 297 |
| **Net Book Value at 31 March 2009** | **129** | **82** | **86** | **297** |

| | Leasehold Improvements £000 | Information Technology £000 | Furniture and Fittings £000 | Total £000 |
|---|---|---|---|---|
| **Cost or Valuation** | | | | |
| At 1 April 2009 | 222 | 291 | 154 | **667** |
| Additions | 3 | 89 | 10 | **102** |
| Disposals | – | (56) | (5) | **(61)** |
| Revaluation of Property, Plant & Eqpt | – | 31 | 2 | **33** |
| Permanent Diminution in Value | – | – | – | – |
| At 31 March 2010 | **225** | **355** | **161** | **741** |
| **Accumulated Depreciation** | | | | |
| At 1 April 2009 | 93 | 209 | 68 | **370** |
| Provided in Year | 48 | 68 | 17 | **133** |
| Disposals | – | (50) | (5) | **(55)** |
| Revaluation | – | 17 | 1 | **18** |
| Permanent Diminution in Value | – | – | – | – |
| At 31 March 2010 | **141** | **244** | **81** | **466** |
| **Net Book Value** | | | | |
| **At 31 March 2010** | 84 | 111 | 80 | **275** |
| **At 31 March 2009** | **129** | **82** | **86** | **297** |

**Asset Financing:**

| | | | | |
|---|---|---|---|---|
| **Owned** | **84** | **111** | **80** | **275** |
| **Net Book Value at 31 March 2010** | **84** | **111** | **80** | **275** |

## 9 INTANGIBLE ASSETS

| | Purchased Software Licences and Development £000 |
|---|---|
| **Cost or Valuation** | |
| Restated at 1 April 2008 | **1,675** |
| Additions | 99 |
| Disposals | – |
| Revaluation of Intangible assets | – |
| Permanent Diminution in Value | – |
| At 31 March 2009 | **1,774** |
| **Accumulated Amortisation** | |
| Restated at 1 April 2008 | **1,302** |
| Provided in Year | 286 |
| Disposals | – |
| Revaluation | – |
| Permanent Diminution in Value | – |
| At 31 March 2009 | **1,588** |
| **Net Book Value** | |
| **At 31 March 2009** | **186** |
| **Restated at 1 April 2008** | **373** |

| | Purchased Software Licences and Development £000 |
|---|---|
| **Cost or Valuation** | |
| At 1 April 2009 | 1,774 |
| Additions | 25 |
| Disposals | (7) |
| Revaluation of Intangible assets | – |
| Permanent Diminution in Value | – |
| At 31 March 2010 | **1,792** |
| **Accumulated Amortisation** | |
| At 1 April 2009 | 1,588 |
| Provided in Year | 45 |
| Disposals | (6) |
| Revaluation | – |
| Permanent Diminution in Value | – |
| At 31 March 2010 | **1,627** |
| **Net Book Value** | |
| **At 31 March 2010** | **165** |
| **At 31 March 2009** | **186** |

## 10 FINANCIAL INSTRUMENTS

As the cash requirements of the Compensation Agency are met through the Estimate process, financial instruments play a more limited role in creating and managing risk than would apply to a non-public sector body. The majority of financial instruments relate to contracts to buy non-financial items in line with the Agency's expected purchase and usage requirements and the Agency is therefore exposed to little credit, liquidity or market risk.

## 11 TRADE RECEIVABLES AND OTHER CURRENT ASSETS

| | 2009-10 £000 | Restated 2008-09 £000 | Restated 1 April 2008 £000 |
|---|---|---|---|
| **Amounts falling due within one year.** | | | |
| Trade receivables | 28 | 11 | – |
| Prepayments and accrued income | 73 | 53 | 82 |
| **Total** | **101** | **64** | **82** |

## 12 CASH AND CASH EQUIVALENTS

| | 2009-10 £000 | Restated 2008-09 £000 | Restated 1 April 2008 £000 |
|---|---|---|---|
| Balance at 1 April | (805) | (1,892) | (3,203) |
| Net change in cash and cash equivalent balances | (1,776) | 1,087 | 1,311 |
| **Balance at 31 March** | **(2,581)** | **(805)** | **(1,892)** |
| **The balance at 31 March was held at:** | | | |
| Commercial banks and cash in hand | **(2,581)** | **(805)** | **(1,892)** |

## 13 TRADE PAYABLES AND OTHER CURRENT LIABILITIES

| | 2009-10 £000 | Restated 2008-09 £000 | Restated 1 April 2008 £000 |
|---|---|---|---|
| Amounts falling due within one year. | | | |
| Trade Payables | 184 | 265 | 476 |
| Accruals and deferred income | 207 | 111 | 141 |
| Non current asset accruals | 35 | 87 | 48 |
| Receipt due to the consolidated fund | - | 14 | – |
| **Total** | **426** | **477** | **665** |

## 14 PROVISIONS FOR LIABILITIES AND CHARGES

At 31 March 2010, the Compensation Agency had the following liabilities relating to outstanding claims under the compensation schemes operated by the Agency:

| | Compensation Claims | | |
|---|---|---|---|
| | 2009-10 £000 | Restated 2008-09 £000 | Restated 1 April 2008 £000 |
| Balance at 1 April | 58,911 | 41,679 | 37,771 |
| Provided in the year | 15,747 | 51,550 | 54,083 |
| Provisions not required written back | – | – | – |
| Provisions utilised in the year | (28,559) | (34,318) | (50,175) |
| **Balance at 31 March** | **46,099** | **58,911** | **41,679** |

This liability relates to the four schemes operated by the Agency and the associated fees and charges thereon. The method of estimation of the value was improved during 2008/09 and high value cases are now considered separately rather than as part of an overall average.

Criminal Injuries provisions fall into two categories determined by the legislation under which claims are made.

Under the Criminal Injuries 1988 Order, the provision for cases in hand at 31 March 2010 is £22,447k. At that date there were 399 cases remaining, and the Agency aims to clear these remaining cases in 2010/11 and 2011/12. Case values are estimated as to their settlement value.

The Criminal Injuries Tariff Scheme was introduced in May 2002, and a total of £10,113k is held for cases which were outstanding at 31 March 2010. Provisions are calculated on a statistical model which follows the claims process through the three potential outcomes at first decision, review and appeal. Cases take on average 12-14 months to clear.

The Criminal Damage provision for those cases under the 1977 Order was held at £13,103k at 31 March 2010. Case values are determined by a loss adjuster's valuation which is included in cases over £50k in value with an assessment of probability for liability. Smaller cases are provided for on the basis of statistics relating to likelihood of award and average value. Clearance times can vary substantially due to the complexity of some cases and whether or not they require a court settlement.

For Justice and Security Act 2007 cases, the Agency has a valuation of £436k at 31 March 2010 for cases in hand which is calculated on a statistical basis. Clearance times can vary greatly for cases of this type dependant upon the nature of the claim.

## 15 CAPITAL COMMITMENTS

At 31 March 2010, the Agency had no further outstanding capital commitments.

## 16 COMMITMENTS UNDER LEASES

### 16.1 Operating leases

Total future minimum lease payments under operating leases are given in the table below for each of the following periods.

| *Obligations under operating leases comprise:* | 2009/10 £000 | Restated 2008/09 £000 |
|---|---|---|
| **Land & Buildings** | | |
| Not later than one year | 198 | 198 |
| Later than one year and not later than five years | 148 | 346 |
| Later than five years | – | – |
| | **346** | **544** |
| **Photocopiers** | | |
| Not later than one year | 2 | 3 |
| Later than one year and not later than five years | – | 3 |
| Later than five years | – | – |
| | **2** | **6** |
| **Total operating leases** | | |
| Not later than one year | 200 | 201 |
| Later than one year and not later than five years | 148 | 349 |
| Later than five years | – | – |
| **Total** | **348** | **550** |

### 16.2 Finance Leases

At 31 March 2010 the Agency had no commitments under finance leases.

## 17 COMMITMENTS UNDER PFI CONTRACTS

At 31 March 2010 the Agency had no commitments under PFI contracts

## 18 OTHER FINANCIAL COMMITMENTS

At 31 March 2010 the Agency had not entered into any non-cancellable contracts.

## 19 CONTINGENT LIABILITIES DISCLOSED UNDER IAS 37

There was one contingent liability as at 31 March 2010. This arises from a formal legal agreement entered into as part of the resolution of a claim, which would otherwise have had to be paid in anticipation of potential future care costs for an applicant under the Criminal Injuries Compensation (Northern Ireland) Order 1988. The health authority does not at present envisage seeking reimbursement of costs, however should that circumstance arise the Compensation Agency would be liable for 20% of the care costs incurred on an annual basis. This contingent liability is currently estimated at £40k per annum.

## 20 LOSSES AND SPECIAL PAYMENTS

The Secretary of State has powers to recover compensation and costs from offenders of crimes in respect of which criminal compensation has been paid. Amounts not received are treated as a loss. There were 612 cases amounting to £6,981,652 where final compensation payments were made in 2009-2010 and offenders identified but it was not considered economic to pursue recovery. (2008/2009 - 524 cases amounting to £5,313,922)

During 2009-2010, final compensation payments were made in 2,594 cases (this includes the 612 cases mentioned above). The total amount of compensation paid in these cases was £29,212,839. This figure incorporates interim payments made in previous years. (2008/2009 - 2,563 cases amounting to £32,016,688)

## 21 RELATED PARTY TRANSACTIONS

The Northern Ireland Office is regarded as a related party. During the year, the Compensation Agency has had various material transactions with the Northern Ireland Office.

In addition the Compensation Agency has had various material transactions with other central Government bodies. Most of these transactions have been with:

Land and Property Services (an Executive Agency of the Department of Finance and Personnel)

Central Procurement Directorate (a Directorate of the Department of Finance and Personnel)

Business & Development Service (an Executive Agency of the Department of Finance and Personnel)

No key managerial staff or other related parties have undertaken any material transactions with the Compensation Agency during the year.

## 22 THIRD PARTY ASSETS

The Agency holds (as custodian or trustee) certain monetary assets belonging to third parties. These assets relate solely to bank balances held for minors under the Criminal Injuries Compensation (Northern Ireland) Order 2002. They are retained by the Agency until the minors attain the age of 18 and attract compound interest at variable rates that are dependent on the outstanding balance.

The assets held at the Statement of Financial Position date (which all relate to bank balances) were as follows;

| | 2009/10<br>£000 | Net Inflow/(Outflow)<br>£000 | 2008/09<br>£000 |
|---|---|---|---|
| Monetary Assets | 3,512 | 397 | 3,115 |

## 23 INTRA-GOVERNMENT BALANCES

| | Debtors: Amounts falling due within one year £000 | Creditors: Amounts falling due within one year £000 |
|---|---|---|
| Balances with other central government bodies | 28 | 322 |
| Balances with public corporations and trading funds | – | – |
| Balances with bodies external to government | 73 | 104 |
| Bank overdraft | – | 2,581 |
| **At 31 March 2010** | **101** | **3,007** |
| Balances with other central government bodies | 11 | 288 |
| Balances with public corporations and trading funds | – | – |
| Balances with bodies external to government | 53 | 189 |
| Bank overdraft | – | 805 |
| **At 31 March 2009** | **64** | **1,282** |
| Balances with other central government bodies | - | 424 |
| Balances with public corporations and trading funds | 11 | – |
| Balances with bodies external to government | 71 | 241 |
| Bank overdraft | – | 1892 |
| **Restated at 1 April 2008** | **82** | **2,557** |

## 24 EVENTS OCCURING AFTER THE REPORTING DATE

On 12 April 2010, policing and justice functions in Northern Ireland were devolved to the Northern Ireland Assembly and the Department of Justice came into existence as a new Northern Ireland Department. From this date, the lead policy responsibility for the Agency transferred from the Northern Ireland Office to the Department of Justice.

The 2009-10 financial statements have been prepared on the basis that the Agency was an executive agency of the Northern Ireland Office for the entire financial year and these will be laid in Parliament. There is no impact on the 2009-10 financial statements arising from the transfer of functions to the Northern Ireland Assembly on 12 April 2010.

The annual report and accounts were authorised by the Accounting Officer on the same day as they were certified by the Comptroller and Auditor General.

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