

## **Appropriation Account 2017**

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### **Vote 35**

### **Army Pensions**

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## 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 2017 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 2017 including the amount that could be used as appropriations-in-aid of expenditure for the year.

A surplus of €575,031 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 as set out by Department of Public Expenditure and Reform in Circular 25 of 2017 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.

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
- procedures for all key business processes have been documented
- there are systems in place to safeguard assets

***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

***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.

***Risk and Control Framework***

The Department has implemented a risk management system which identifies and reports key risks and the management actions being taken to address and, to the extent possible, to mitigate those risks.

A risk register is in place which identifies the key risks facing the Department and these have been identified, evaluated and graded according to their significance. The register is reviewed and updated by the Management Board on a monthly basis. The outcome of these assessments is used to plan and allocate resources to ensure risks are managed to an acceptable level.

The risk register details the controls and actions needed to mitigate risks and assigns responsibility for operation of controls to specific staff.

***Ongoing Monitoring and Review***

Formal procedures have been established for monitoring control processes and control deficiencies are communicated to those responsible for taking corrective action and to management and the Management Board where relevant, in a timely way. I confirm that key risks and related controls have been identified and processes have been put in place to monitor the operation of those key controls and report any identified deficiencies.

***Review of Effectiveness***

I confirm that the Department has procedures to monitor the effectiveness of its risk management and control procedures. The Department's monitoring and review of the effectiveness of the system of internal financial control is informed by the work of the internal and external auditors and the senior management within the Department responsible for the development and maintenance of the internal financial control framework.

***Internal Financial Control Issues***

No weaknesses in internal financial control were identified in relation to 2017 that resulted in, or may result in, a material loss.

**Maurice Quinn**  
Accounting Officer

29 March 2018

## **Comptroller and Auditor General**

### **Report for presentation to the Houses of the Oireachtas**

#### **Vote 35 Army Pensions**

##### ***Opinion on the appropriation account***

I have audited the appropriation account for Vote 35 Army Pensions for the year ended 31 December 2017 under section 3 of the Comptroller and Auditor General (Amendment) Act 1993.

In my opinion, the appropriation account

- properly presents the receipts and expenditure of Vote 35 Army Pensions for the year ended 31 December 2017
- has been prepared in the form prescribed by the Minister for Public Expenditure and Reform

##### ***Basis of opinion***

I conducted my audit of the appropriation account in accordance with the International Standards on Auditing (ISAs) as promulgated by the International Organisation of Supreme Audit Institutions. My responsibilities under those standards are described in the *Preface to the Appropriation Accounts*. I am independent of the Department of Defence and have fulfilled my other ethical responsibilities in accordance with the standards.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

##### ***Report on the statement on internal financial control, and on other matters***

The Accounting Officer has presented a statement on internal financial control together with the appropriation account. My responsibilities to report in relation to the information in the statement, and on certain other matters upon which I report by exception, are described in the *Preface to the Appropriation Accounts*.

I have nothing to report in that regard.

**Seamus McCarthy**

Comptroller and Auditor General

21 September 2018

## Vote 35 Army Pensions

### Appropriation Account 2017

		2017		2016
		Estimate provision		Outturn
		€000	€000	€000
<b>Programme expenditure</b>				
<b>A Provision for Defence Forces' pension benefits</b>				
	<i>Original</i>	229,632		
	<i>Supplementary</i>	11,000	240,632	240,022
				234,713
<b>Gross expenditure</b>				
	<i>Original</i>	229,632		
	<i>Supplementary</i>	11,000	240,632	240,022
				234,713
<i>Deduct</i>				
<b>B Appropriations-in-aid</b>				
	<i>Original</i>	5,000		
	<i>Supplementary</i>	300	5,300	5,265
				5,437
<b>Net expenditure</b>				
	<i>Original</i>	224,632		
	<i>Supplementary</i>	10,700		
			235,332	234,757
				229,276

#### Surplus

The surplus of the amount provided over the net amount applied is liable for surrender to the Exchequer.

	2017	2016
	€	€
Surplus to be surrendered	575,031	214,167
Excess Vote	—	23,299

**Maurice Quinn**  
Accounting Officer

29 March 2018

## Notes to the Appropriation Account

### Note 1 Operating Cost Statement 2017

	2017	2016
	€000	€000
Programme cost	239,951	234,643
Pay	56	56
Non pay	15	14
<b>Gross expenditure</b>	<b>240,022</b>	<b>234,713</b>
<i>Deduct</i>		
<b>Appropriations-in-aid</b>	<b>5,265</b>	<b>5,437</b>
<b>Net expenditure</b>	<b>234,757</b>	<b>229,276</b>
Net allied services expenditure (note 1.1)	2,582	2,659
<b>Net programme cost</b>	<b>237,339</b>	<b>231,935</b>

#### 1.1 Net Allied Services Expenditure

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

	2017	2016
	€000	€000
Vote 18 National Shared Services Office	1,258	1,273
Vote 36 Defence	1,324	1,386
	<b>2,582</b>	<b>2,659</b>

## Note 2 Statement of Financial Position as at 31 December 2017

	Note	2017 €000	2016 €000
<b>Current assets</b>			
Bank and cash		572	232
Other debit balances		7	—
<b>Total current assets</b>		<b>579</b>	<b>232</b>
<b>Less current liabilities</b>			
Other credit balances	2.2	5	19
Net Exchequer funding due	2.3	574	213
<b>Total current liabilities</b>		<b>579</b>	<b>232</b>
<b>Net current assets</b>		<b>—</b>	<b>—</b>
<b>Net assets</b>		<b>—</b>	<b>—</b>
<b>Represented by:</b>			
<b>State funding account</b>	2.1	<b>—</b>	<b>—</b>

### 2.1 State funding account

	Note	2017 €000	2016 €000
Balance at 1 January		—	—
Disbursements from the Vote			
Estimate provision	Account	235,332	
Net surplus	Account	(575)	
Net vote		234,757	229,276
Expenditure (cash) borne elsewhere	1.1	2,582	2,659
Net programme cost	1	(237,339)	(231,935)
<b>Balance at 31 December</b>		<b>—</b>	<b>—</b>



## 2.2 Other credit balances

at 31 December	2017	2016
	€000	€000
Amounts due to the State		
Taxes payable	—	5
	—	5
Pension payments held in suspense	5	14
	<b>5</b>	<b>19</b>

## 2.3 Net Exchequer funding due

at 31 December	2017	2016
	€000	€000
Net surplus	575	214
Exchequer grant undrawn	(1)	(1)
<b>Net Exchequer funding due</b>	<b>574</b>	<b>213</b>

### Represented by:

#### Debtors

Bank and cash	572	232
Debit balances: suspense	7	—
	<b>579</b>	<b>232</b>

#### Creditors

Due to State	—	(5)
Credit balances: suspense	(5)	(14)
	<b>574</b>	<b>213</b>

### Note 3 Vote Expenditure by Subhead

#### Programme A Provision for Defence Forces' pension benefits

		2017		2016
		Estimate provision	Outturn	Outturn
		€000	€000	€000
A.1	Administration – pay		70	70
A.2	Defence Forces pensions schemes and payments in respect of transferred service			
	Original	220,137		
	Supplementary	10,830	230,967	230,644
A.3	Wound and disability pensions, allowances and gratuities to or in respect of former members of the Defence Forces			
	Original	8,700		
	Supplementary	430	9,130	8,857
A.4	Payments to spouses of veterans of the War of Independence			
	Original	400		
	Supplementary	(55)	345	335
A.5	Compensation payments			
	Original	225		
	Supplementary	(155)	70	74
A.6	Medical appliances and travelling and incidental expenses			
	Original	100		
	Supplementary	(50)	50	41
		<b>240,632</b>	<b>240,022</b>	<b>234,713</b>

#### Significant variation

Overall, gross expenditure in relation to the Programme was €10.39 million higher than the original estimate. A supplementary estimate of €10.83 million was required on Subhead A2 to cover the full projected cost of the retirement benefits – pensions and retirement lump sums – arising during 2017 and the superannuation costs of the increased numbers of military pensioners. A further €0.43 million was required on Subhead A3 to meet the increased military disability pension costs. This supplementary estimate of €11.26 million was partly offset by savings of €0.26 million arising on Subheads A4, A5 and A6, which are demand driven, giving a gross requirement of €11 million. Estimated extra receipts in Subhead B of €0.30 million resulted in a net supplementary estimate of €10.70 million.

#### A.2 Defence Forces pension schemes and payments in respect of transferred service.

Estimate Provision: €220.137 million, outturn: €230.644 million

The increase in expenditure of €10.507 million relative to the estimate provision was due to a range of factors. The number of Defence Forces retirement pensioners rose from 11,807 at end-2016 to 11,970 at end-2017, 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. In 2017, some 70% of military personnel who retired with immediate entitlement to pension and retirement lump sum did so voluntarily, that is, before their maximum retirement age. As the numbers and rank mix varies from year to year, it is very difficult to accurately predict the exact numbers of such voluntary retirements and the potential benefits payable in any given year.

*A.5 Compensation Payments*

Estimate provision: €0.225 million, outturn: €0.074 million

The shortfall (saving) in expenditure of €0.151 million relative to the estimate provision was due to the fact that no payments were made under the main 'contingency' element of this subhead during 2017. That element 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.

## Note 4 Receipts

### 4.1 Appropriations-in-aid

		2017		2016
		Estimated	Realised	Realised
		€000	€000	€000
B.1	Contributions to Defence Forces Spouses' and Children's Pension Schemes			
	<i>Original</i>	3,347		
	<i>Supplementary</i>	300	3,647	3,694
				3,846
B.2	Contributions to Defence Forces Contributory (Main) Pensions Schemes	1,500	1,525	1,493
B.3	Recoveries of overpayments	40	36	96
B.4	Payments received in respect of transferred service	40	8	—
B.5	Miscellaneous	70	—	—
B.6	Receipts from pension-related deduction on public service remuneration	3	2	2
<b>Total</b>		<b>5,300</b>	<b>5,265</b>	<b>5,437</b>

#### Significant variations

Overall, appropriations-in-aid were €0.265 million more than the original estimate.

The main explanation for the variance is set out below:

#### B.1 Contributions to Defence Forces Spouses' and Children's Pension Schemes

Estimate provision: €3.347 million, outturn: €3.694 million

The increase of €0.347 million was due to the fact that contributions to the pension schemes by serving Permanent Defence Force personnel were higher than anticipated. Contributions 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.

## Note 5 Employee Numbers and Pay

### 5.1 Employee numbers

	2017	2016
Number of staff at year end (full time equivalents)	1	1

### 5.2 Pay

	2017 €000	2016 €000
Pay	55	55
Employer's PRSI	1	1
<b>Total pay</b>	<b>56</b>	<b>56</b>

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

Pay costs along with associated travel costs of €15,000 are charged to the A.1 subhead.

Currently there are 18.5 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.

### 5.3 Retirement pension (annual) – average payments to retired Defence Forces personnel<sup>a</sup>

Category of pensioner	Number of pension recipients at year-end		Average individual payment (rounded)	
	2017	2016	2017	2016
			€	€
Retired officers	1,817	1,773	30,600	30,500
Retired NCOs and privates	8,648	8,526	16,600	16,600
Dependants and other <sup>b</sup>	1,905	1,935		
<b>Totals</b>	<b>12,370</b>	<b>12,234</b>		

a Table 5.3 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 for 1,440 recipients in 2017 was €9,100, broadly the same as in 2016.

#### 5.4 Retirement gratuity (lump sum) – average payments where retiring on pension<sup>a</sup>

Category of pensioner	Number of recipients		Average individual payment (rounded)	
	2017	2016	2017	2016
			€	€
Officers – new retirees on pension during the year	69	74	81,500	69,300
NCOs and privates – new retirees on pension during the year	258	256	44,800	41,000
<b>Totals</b>	<b>327</b>	<b>330</b>		

**a** The level of pension and retirement gratuity varies with retiring rank, pensionable earnings, overall reckonable service, etc.

## 6 Miscellaneous

### 6.1 Payments in excess of entitlements

There were 55 overpayments outstanding at year end (2016: 52) amounting to €48,458, of which €28,348 relates to previous years. Overpayments of €59,721 came to light in 2017 of which €38,385 was recovered and €1,227 written off. Efforts are ongoing to recover outstanding amounts. 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.

	2017		2016
	€	€	€
<b>Opening balance</b>		<b>50,423</b>	<b>31,193</b>
Identified overpayment in year		59,721	90,672
		<u>110,144</u>	<u>121,865</u>
<b>Recouped</b>			
Overpayments Identified 2017	38,385		
Overpayments Identified pre-2017	20,098	58,483	63,904
		<u>51,661</u>	<u>57,961</u>
<b>Written off</b>			
Overpayments Identified 2017	1,227		
Overpayments Identified pre-2017	1,976	3,203	7,538
<b>Closing balance</b>		<u><b>48,458</b></u>	<u><b>50,423</b></u>

### 6.2 Payments subject to Public Service pension abatement

Ten overpayments, amounting to €72,365 - which are not included in the figures at 6.1 above - came to light in 2017. They were in respect of former members of the Defence Forces, in receipt of military retirement pensions, who had subsequently taken up employment elsewhere in the public service. Such pensions should have been subject to the abatement provisions of Section 52 of the Public Service Pensions (Single Scheme and Other Provisions) Act. In each case, the pension overpayments arose due to delays on the part of the relevant public service employer in notifying the Department of Defence of the pensioner's re-employment. In 2017 €21,716 of the outstanding amount was recovered. Recovery is complete in one case and is ongoing in six cases. The Department of Defence is in ongoing correspondence in three other cases.

	2017
	€
Overpayments identified in the year	72,365
	<u>72,365</u>
<b>Recouped</b>	
Overpayments identified 2017	<u>21,716</u>
<b>Closing balance</b>	<u><b>50,649</b></u>

