

Appropriation Account 2018

Vote 35

Army Pensions

Introduction

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

In accordance with this requirement, I have prepared the attached account of the amount expended in the year ended 31 December 2018 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 2018 including the amount that could be used as appropriations-in-aid of expenditure for the year.

A surplus of €481,095 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 the Department of Public Expenditure and Reform in Circular 24 of 2018 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 2018 that resulted in, or may result in, a material loss.

Maurice Quinn
Accounting Officer

25 March 2019

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 2018 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 2018
- 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

20 September 2019

Vote 35 Army Pensions

Appropriation Account 2018

| | 2018 | | 2017 |
|--|--------------------|---------|---------|
| | Estimate provision | Outturn | Outturn |
| | €000 | €000 | €000 |
| Programme expenditure | | | |
| A Provision for Defence Forces' pension benefits | | | |
| <i>Original</i> | 239,133 | | |
| <i>Supplementary</i> | 3,501 | | |
| | | 242,634 | 240,022 |
| Gross expenditure | | | |
| <i>Original</i> | 239,133 | | |
| <i>Supplementary</i> | 3,501 | | |
| | | 242,634 | 240,022 |
| <i>Deduct</i> | | | |
| B Appropriations-in-aid | | 5,000 | 5,265 |
| Net expenditure | | | |
| <i>Original</i> | 234,133 | | |
| <i>Supplementary</i> | 3,501 | | |
| | | 237,634 | 234,757 |
| Surplus | | | |
| The surplus of the amount provided over the net amount applied is liable for surrender to the Exchequer. | | | |
| | | 2018 | 2017 |
| | | € | € |
| Surplus to be surrendered | | 481,095 | 575,031 |

Maurice Quinn
Accounting Officer

25 March 2019

Notes to the Appropriation Account

Note 1 Operating Cost Statement 2018

| | 2018 | 2017 |
|--|----------------|----------------|
| | €000 | €000 |
| Programme cost | 242,233 | 239,951 |
| Pay | 70 | 56 |
| Non pay | 17 | 15 |
| Gross expenditure | 242,320 | 240,022 |
| <i>Deduct</i> | | |
| Appropriations-in-aid | 5,167 | 5,265 |
| Net expenditure | 237,153 | 234,757 |
| | | |
| Net allied services expenditure (note 1.1) | 2,558 | 2,582 |
| Net programme cost | 239,711 | 237,339 |

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 the administration of pension benefits and other services.

| | 2018 | 2017 |
|---|--------------|--------------|
| | €000 | €000 |
| Vote 18 National Shared Services Office | 1,144 | 1,258 |
| Vote 36 Defence | 1,414 | 1,324 |
| | <u>2,558</u> | <u>2,582</u> |

Note 2 Statement of Financial Position as at 31 December 2018

| | Note | 2018 €000 | 2017 €000 |
|----------------------------------|------|--------------|--------------|
| Current assets | | | |
| Bank and cash | | 508 | 572 |
| Other debit balances | | — | 7 |
| Total current assets | | <u>508</u> | <u>579</u> |
| Less current liabilities | | | |
| Other credit balances | 2.2 | 29 | 5 |
| Net Exchequer funding due | 2.3 | <u>479</u> | <u>574</u> |
| Total current liabilities | | <u>508</u> | <u>579</u> |
| Net current assets | | <u>—</u> | <u>—</u> |
| Net assets | | <u>—</u> | <u>—</u> |
| Represented by: | | | |
| State funding account | 2.1 | <u>—</u> | <u>—</u> |

2.1 State funding account

| | Note | 2018 €000 | 2017 €000 |
|------------------------------------|---------|------------------|------------------|
| Balance at 1 January | | — | — |
| Disbursements from the Vote | | | |
| Estimate provision | Account | 237,634 | |
| Surplus to be surrendered | Account | <u>(481)</u> | |
| Net vote | | 237,153 | 234,757 |
| Expenditure (cash) borne elsewhere | 1.1 | 2,558 | 2,582 |
| Net programme cost | 1 | <u>(239,711)</u> | <u>(237,339)</u> |
| Balance at 31 December | | <u>—</u> | <u>—</u> |

2.2 Other credit balances

| at 31 December | 2018 | 2017 |
|-----------------------------------|-----------|----------|
| | €000 | €000 |
| Amounts due to the State | | |
| Taxes payable | — | — |
| | — | — |
| Pension payments held in suspense | 29 | 5 |
| | <u>29</u> | <u>5</u> |

2.3 Net Exchequer funding due

| at 31 December | 2018 | 2017 |
|----------------------------------|------------|------------|
| | €000 | €000 |
| Surplus to be surrendered | 481 | 575 |
| Exchequer grant undrawn | (2) | (1) |
| Net Exchequer funding due | <u>479</u> | <u>574</u> |

Represented by:**Debtors**

| | | |
|--------------------------|------------|------------|
| Bank and cash | 508 | 572 |
| Debit balances: suspense | — | 7 |
| | <u>508</u> | <u>579</u> |

Creditors

| | | |
|---------------------------|------------|------------|
| Due to State | — | — |
| Credit balances: suspense | (29) | (5) |
| | <u>479</u> | <u>574</u> |

Note 3 Vote Expenditure

Programme A Provision for Defence Forces' pension benefits

| | | 2018 | | 2017 | |
|-----|--|--------------------|----------------|----------------|----------------|
| | | Estimate provision | | Outturn | |
| | | €000 | €000 | €000 | |
| A.1 | Administration – pay | | 70 | 87 | 71 |
| A.2 | Defence Forces (pensions) schemes and payments in respect of transferred service | | | | |
| | <i>Original</i> | 229,240 | | | |
| | <i>Supplementary</i> | <u>4,698</u> | | | |
| | | | 233,938 | 233,551 | 230,644 |
| A.3 | Wound and disability pensions, allowances and gratuities to or in respect of former members of the Defence Forces | | | | |
| | <i>Original</i> | 9,200 | | | |
| | <i>Supplementary</i> | <u>(954)</u> | | | |
| | | | 8,246 | 8,317 | 8,857 |
| A.4 | Payments to spouses of veterans of the War of Independence | | | | |
| | <i>Original</i> | 300 | | | |
| | <i>Supplementary</i> | <u>(33)</u> | | | |
| | | | 267 | 262 | 335 |
| A.5 | Compensation payments | | | | |
| | <i>Original</i> | 223 | | | |
| | <i>Supplementary</i> | <u>(150)</u> | | | |
| | | | 73 | 74 | 74 |
| A.6 | Medical appliances and travelling and incidental expenses | | | | |
| | <i>Original</i> | 100 | | | |
| | <i>Supplementary</i> | <u>(60)</u> | | | |
| | | | 40 | 29 | 41 |
| | | | <u>242,634</u> | <u>242,320</u> | <u>240,022</u> |

Significant variations

Overall, gross expenditure was €3.187 million higher than the original estimate. A supplementary estimate of €4.698 million was required on Subhead A2 to cover the full projected cost of the retirement benefits – pensions and retirement lump sums – arising during 2018 and the superannuation costs of the increased numbers of military pensioners. This supplementary estimate of €4.698 million was partly offset by savings of €1.197 million arising on subheads A3, A4, A5 and A6, which are demand driven, giving a net requirement of €3.501 million.

A.2 *Defence Forces (pensions) schemes and payments in respect of transferred service*

Estimate provision: €229.24 million, outturn: €233.551 million

The increase in expenditure of €4.311 million relative to the estimate provision was due to a range of factors. The number of Defence Forces retirement pensioners rose from 11,970 at end-2017 to 12,104 at end-2018, 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 2018, some 75% of military personnel who retired with immediate entitlement to pension and retirement lump sum did so voluntarily, that is, before their maximum retirement age. 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.3 *Wound and disability pensions, allowances and gratuities to or in respect of former members of the Defence Forces*

Estimate provision: €9.2 million, outturn: €8.317 million

The variation is due to fewer than expected new disability pension and disablement lump sum awards coming into payment in 2018. Factors impacting on spend are the numbers and outcome of new disability pension applications. Because of its demand driven nature, it is difficult to predict expenditure in this subhead from year to year.

A.5 *Compensation Payments*

Estimate provision: €223,000, outturn: €74,000

The main 'contingency' element of this subhead provides for payment of special lump sum compensation by the Department of Defence for service-related deaths or disablement of members of the Defence Forces while serving overseas with the UN and certain other missions. There were no such payments in this category during 2018.

Note 4 Receipts

4.1 Appropriations-in-aid

| | 2018 | | 2017 |
|---|--------------|--------------|--------------|
| | Estimated | Realised | Realised |
| | €000 | €000 | €000 |
| 1 Contributions to Defence Forces Spouses' and Children's Pension Schemes | 3,347 | 3,497 | 3,694 |
| 2 Contributions to Defence Forces Contributory (Main) Pensions Schemes | 1,500 | 1,596 | 1,525 |
| 3 Recoveries of overpayments | 40 | 68 | 36 |
| 4 Payments received in respect of transferred service | 40 | — | 8 |
| 5 Miscellaneous | 70 | 4 | — |
| 6 Receipts from pension-related deduction on public service remuneration | 3 | 2 | 2 |
| Total | 5,000 | 5,167 | 5,265 |

Note 5 Staffing and Remuneration

5.1 Employee numbers (full time equivalents)

| | 2018 | 2017 |
|-----------------------------|------|------|
| Number of staff at year end | 1 | 1 |

5.2 Pay

| | 2018 | 2017 |
|------------------|-----------|-----------|
| | €000 | €000 |
| Pay | 68 | 55 |
| Employer's PRSI | 2 | 1 |
| Total pay | 70 | 56 |

Notes The pay figure above includes the salary of one full time Department of Defence staff member (See Note 5.1) who provides administrative support to the Army Pensions Board and fees paid to two members of the Board in 2018 (only one of whom received such payments in 2017). These pay costs, and associated travel costs of €17,000, are charged to the A.1 subhead.

Currently there are 22.5 employees (FTEs) of the Department of Defence engaged solely in the administration of pensions and other related payments. Their remuneration, which amounts to some €900,000, is charged to Vote 36.

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

| Category of pensioner | Number of pension recipients at year-end | | Average individual payment (rounded) | |
|-----------------------------------|--|---------------|--------------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| | | | € | € |
| Retired officers | 1,839 | 1,817 | 31,100 | 30,600 |
| Retired NCOs and privates | 8,779 | 8,648 | 16,750 | 16,600 |
| Dependants and other ^b | 1,865 | 1,905 | | |
| Totals | 12,483 | 12,370 | | |

Notes ^a Table 5.3 shows the total headcount for all categories of recipients from all subheads within Vote 35. 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. The average individual pension payment recorded for retired personnel is calculated by reference to total expenditure on retirement pensions as at year-end under Subhead A2.

^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 1,418 recipients in 2018 was €9,200, broadly the same as in 2017.

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

| Category of pensioner | Number of recipients | | Average individual payment (rounded) | |
|--|----------------------|------------|--------------------------------------|--------|
| | 2018 | 2017 | 2018 | 2017 |
| New retirees on pension during the year | | | € | € |
| Officers | 50 | 69 | 87,000 | 81,500 |
| NCOs and privates | 293 | 258 | 39,650 | 44,800 |
| Totals | 343 | 327 | | |

Note ^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 53 overpayments outstanding at year end (2017: 55) amounting to €45,432, of which €24,324 relates to previous years. Overpayments of €56,955 came to light in 2018 of which €34,323 was recovered and €1,524 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.

| | 2018 | | 2017 |
|----------------------------------|--------|---------------|---------------|
| | € | € | € |
| Opening balance | | 48,458 | 50,423 |
| Identified overpayment in year | | 56,955 | 59,721 |
| | | 105,413 | 110,144 |
| Recouped | | | |
| Overpayments Identified 2018 | 34,323 | | |
| Overpayments Identified pre-2018 | 20,875 | 55,198 | 58,483 |
| | | 50,215 | 51,661 |
| Written off | | | |
| Overpayments Identified 2018 | 1,524 | | |
| Overpayments Identified pre-2018 | 3,259 | 4,783 | 3,203 |
| Closing balance | | 45,432 | 48,458 |

6.2 Payments subject to Public Service pension abatement

Separately from the figures at 6.1 above, there were 20 other overpayments outstanding at year-end (2017:9), amounting to €52,950 (2017: €50,649). These 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 are 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. Overpayments of €13,446 came to light in 2018 in respect of 14 cases, of which, €8,535 was recovered. Of all the overpayment cases identified, recovery is complete in four cases and ongoing in thirteen cases. The Department of Defence is in ongoing correspondence in seven other cases.

| | 2018 | | 2017 |
|-------------------------------------|-------|---------------|---------------|
| | € | € | € |
| Opening balance | | 50,649 | — |
| Overpayments Identified in the year | | 13,446 | 72,365 |
| | | 64,095 | 72,365 |
| Recouped | | | |
| Overpayments Identified 2017 | 2,610 | | |
| Overpayments Identified 2018 | 8,535 | | |
| | | 11,145 | 21,716 |
| Closing balance | | 52,950 | 50,649 |