

**Northern Ireland Audit Office Resource Accounts
For the year ended 31 March 2007**

*Laid before the Northern Ireland Assembly by the Department of Finance and Personnel
under paragraph 4(2) of Schedule 2 to the Audit (Northern Ireland) Order 1987.*

29 June 2007

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NIA 34/06-07

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NORTHERN IRELAND AUDIT OFFICE

Resource Accounts for the year ended 31 March 2007

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MANAGEMENT COMMENTARY

Nature, objectives and strategies of the Northern Ireland Audit Office

Since 1987, the Comptroller and Auditor General for Northern Ireland has been supported by the Northern Ireland Audit Office, the successor body to the Exchequer and Audit Department. The Audit and Accountability Order 2003 provided for the amalgamation of Local Government and Health audit functions with the Central Government audit function in Northern Ireland.

The Northern Ireland Audit Office's strategic objectives are to:

- Provide effective support to the Northern Ireland Assembly in its task of holding Northern Ireland Departments, executive agencies and other public bodies to account for their use of public money;
- Provide support to Northern Ireland public sector bodies in their pursuit of improved financial reporting and value for money, including support for efforts to combat public sector fraud;
- Meet the requirements placed on the Office by legislation (principally, the Audit (Northern Ireland) Order 1987; the Northern Ireland Act 1998; the Government Resources and Accounts Act (Northern Ireland) 2001; and the Audit and Accountability (Northern Ireland) Order 2003). This includes fulfilment of the Office's obligations under Section 75 of the Northern Ireland Act 1998 in relation to promotion of equality of opportunity and good relations in all its policies and procedures;
- Provide effective local government audit to the Department of the Environment; and
- Value staff and develop their full potential.

The Office is comprised of four Divisions: three operational divisions (Central Government Financial Audit, Central Government Value for Money Audit and Local Government Audit) and one central support services division. The three operational divisions are headed by an Assistant Auditor General and the central support division is headed by the Deputy Comptroller and Auditor General. They in turn, report to the Comptroller and Auditor General for Northern Ireland.

The principal activities of the Northern Ireland Audit Office are:

- Authorising the issue of public funds from the Consolidated Fund for Northern Ireland;
- Auditing and reporting on the annual accounts of public bodies;
- Examining and reporting to the Northern Ireland Assembly about whether public bodies spend taxpayers' money economically, efficiently and effectively;
- Examining risks to regularity, propriety and financial control and reporting results to individual public bodies and Northern Ireland Assembly; and
- Providing audited bodies with constructive advice to help them improve their corporate governance, risk management control and reporting.

A review of Performance in 2006-07

Over the past year NIAO:

- Audited 238 accounts, including 20 resource accounts (2005-06 235 accounts, including 19 resource accounts);
- Published 11 value for money reports (2005-06 11). Details of the reports published in 2006-07 can be obtained from our website, www.niauditoffice.gov.uk;
- Produced an annual report on the results of financial audit work on 2005-06 accounts;
- Responded to all enquiries from elected representatives and members of the public;
- Assisted Northern Ireland Departments with the further development of resource accounting and preparations for Whole of Government Accounts;
- Increased its support for departments' action against public sector fraud and continued to encourage departments' participation in the National Fraud Initiative;
- Took action to support the strengthening of governance in the public sector;
- Continued to help departments deliver the government's commitment to faster closing of accounts; and
- Improved the audit scrutiny of health sector bodies.

In achieving this performance, the Office used £10.084 million resources. After taking account of £1.843 million income, the Office's net resource requirement in 2006-07 was £8.241 million, £0.335 million less than the sum approved by Parliament in the Office's Supply Estimate. The under-spend is mainly accounted for by the fact that NIAO is currently operating below its required staff complement.

The Office generated income of £1.995 million, £0.14 million more than the sum authorised to be used by Parliament as Accruing Resources. This was because of additional work on the European Agricultural Guidance and Guarantee Fund audit due to the introduction of the Single Payment Scheme.

Capital investment was £0.742 million compared with a budget of £0.95million. The outturn for 2006-07 is £0.563 higher than the previous year and is due to the alterations being made to NIAO's building in University Street. These alterations were necessary so that all staff could be housed in one location; prior to this NIAO had outstations in Belfast City Hall and Londonderry House. This was the last phase in the amalgamation of Local Government and Health audit with Central Government audit.

Going forward, Appendix 3 to the 2007-08 to 2009-10 Corporate Plan provides details of the estimated expenditure and accruing resources for 2006-07 and the planned expenditure and accruing resources for 2007-08 to 2009-10. These can be obtained from our website, www.niauditoffice.gov.uk.

Future Development

The Corporate Plan which covers the period 2007-08 to 2009-10 provides detail on NIAO's strategic issues. These are listed in the Introduction to the Plan and include areas such as:

- Supporting the strengthening of governance in the public sector;
- Meeting the need for intensive audit scrutiny of the changing face of public sector administration;
- Addressing the changes in auditing and accounting standards and public sector developments;
- Addressing the impact of new legislation affecting local government accounting and auditing;
- Expanding work on performance measurement and validation;
- Helping to deliver the Government's commitment to faster closing of accounts and supporting the move to Whole of Government Accounts;
- Meeting the need for increased audit coverage of IT systems;
- Dealing with the continuing expansion of PFI/PPP work in Northern Ireland;

Northern Ireland Audit Office Resource Accounts 2006-07

- Closer monitoring of departments' anti-fraud action; and
- Supporting the development of Account NI (implementation of a common accounting system in Central Government).

NIAO will also face two major changes in its working environment in the planning period;

- The Northern Ireland Assembly; and
- The review of Public Administration

Resources

Staff Resources

During the 2006-07 year NIAO had a total of 141 whole time equivalents. Of these staff 49 per cent or 69 whole time equivalents were qualified accountants.

NIAO is actively engaged in the recruitment of trainee accountants and currently has 18 trainees with another six due to start in September 2007.

NIAO considers its staff to be its most valuable asset and recognises it is important that staff are appropriately trained and experienced. Accordingly in 2006-07 staff undertook a total of 1,417 staff days of training at 93 separate training events. The full cost of this to NIAO was £639,010. This does not include the cost of professional studies undertaken by the trainee accountants.

Consistent with his responsibilities as Accounting Officer, the Comptroller and Auditor General for Northern Ireland has issued to all Northern Ireland Audit Office employees:

- A Vision, Mission and Values Statement – the purpose of the Statement is to ensure that each employee undertakes the work of the Office by reference to a clear set of core values which include integrity and professional excellence; and
- A Code of Conduct - the purpose of the Code is to provide all staff with clear guidance on the standards of corporate and personal conduct expected of them. The code includes statements on the conduct of Northern Ireland Audit Office work, confidentiality, conflicts of interests and personal conduct.

Financial Resources

The activities undertaken by NIAO flow from the statutory functions and obligations of the Comptroller and Auditor General for Northern Ireland and are funded by parliamentary grant.

In certain circumstances the Comptroller and Auditor General for Northern Ireland may charge a fee for audits. The Northern Ireland Audit Office has an established policy on the circumstances in which fees are charged.

The Northern Ireland Audit Office's fixed asset base comprises its headquarters building, with associated fixtures and fittings and information and communications technology equipment. The Office continues to expand its asset base to support the increasing use of information technology in its work, and to refresh its information technology hardware and software.

Reconciliation of Resource Expenditure Between Estimates, Accounts and Budgets

The Government Financial Reporting Manual requires a table showing a reconciliation on an outturn basis between the Net Resource Outturn, the Net Operating Cost and the Budget figure. In NIAO's case the reconciliation between the Net Resource Outturn and the Net Operating Cost is shown at note 2 and there are no further reconciling items between the Net Operating Cost and NIAO's budget.

Principal Risks and Uncertainties

The Northern Ireland Audit Office identifies its risks in accordance with the guidance issued by Treasury in its publication 'The Orange Book – Management of Risk Principles and Concepts'.

Each of the four divisions within NIAO has its own risk register and from these an overall corporate risk register is produced. The corporate register is prepared on the basis of an assessment of the risks impacting on the achievement of NIAO's objectives for 2006-07 as laid out in its Corporate Plan. These documents are considered to be working documents subject to regular review and update. Each risk register includes details of how the risk is managed or what needs to be done to ensure it becomes managed, together with target dates and the names of individuals responsible for ensuring that the risk is managed.

The corporate risk register contains six high level risks many of which, if they were not dealt with, would result in damage to the reputation of C&AG. These are outlined below:

1. NIAO's resource accounts qualified or reported on.

In order to avoid this happening NIAO has put in place procedures to ensure that:

- Accruals based management information is provided on a monthly basis to budget holders and senior management for their scrutiny and the subsequent amendment of the accounting system. This information covers both outturn to date and projected budget;
- Quarterly resource accounts are produced;
- Budget holders are fully aware of their responsibilities and with the concepts of regularity and propriety; and

- Appropriate training courses are attended by staff involved in the process.
2. Failure to produce a Corporate Plan and subsequent Estimate that secures adequate resources for NIAO.

In order to avoid this happening NIAO work to a timetable with clear target dates for the production of the Corporate Plan and the Estimate. This timetable is communicated to heads of divisions together with details of the input required from each. The day to day monitoring of the process is the responsibility of an audit manager with regular meetings with C&AG and Assistant Auditor Generals before and during the process.

3. Amounts issued from Consolidated Fund not in accordance with the Assembly's authorisation.

In order to ensure that this does not occur NIAO has properly documented procedures in place which are regularly reviewed and updated as necessary. All staff involved in the approval process are provided with these procedures.

All requests for supply issues are subject to two levels of review before final approval is given.

4. Inappropriate audit opinions placed on financial statements.

NIAO has put in place a wide range of controls to ensure that the correct opinion is placed on all accounts, some of which are:

- Common audit methodology applied to all audits with staff appropriately trained in the methodology;
- Two stage review applied to all audits;
- Independent review of high risk accounts;
- Regular training updates for staff covering audit and accounting standards;
- Hot review of high risk accounts;
- Training in regularity and propriety; and
- Close liaison with private sector auditors contracted by NIAO to carry out audits, including an appropriate level of review of their work.

5. Failure to provide constructive advice to audited bodies.

In order to avoid this risk materialising:

- Senior management/statutory auditors attend audit committees and ensure regular contact with auditees; and

- Senior management/statutory auditors will sign off on all auditee communication.

6. Failure to deliver the right number of good quality VFM reports

Procedures to deal with this risk include:

- The identification of VFM future programme of work through the strategic and corporate planning process, leading to a programme of survey, monitoring and risk assessment;
- Supporting staff when necessary with specialist consultants, reference partners and temporary appointments;
- Internal liaison with financial auditors;
- Appropriate staff training ; and
- Internal and external quality review.

Relationships

In 2006-07 NIAO had important relationships with a number of bodies, namely:

- The Public Accounts Commission advised by the Public Accounts Committee and the Department of Finance and Personnel for the approval of its Corporate Plan and Estimate;
- The Public Accounts Committee which set the number of VFM reports it expected NIAO to produce, suggested topics that NIAO should look at and held evidence sessions on some of these reports;
- Other audit institutions, mainly National Audit Office, Wales Audit Office, Audit Scotland and the Office of the Irish Comptroller and Auditor General. NIAO liaises closely with these bodies in terms of identification of best practice. NIAO carries out audits on behalf of NAO of GB bodies based in Northern Ireland such as Court Service, the Northern Ireland Office and Police Service of Northern Ireland; and
- Private sector audit firms which we contract to carry out some of our audits.

J M Dowdall
Comptroller and Auditor General for Northern Ireland

7th June 2007

Corporate Governance in the Northern Ireland Audit Office (NIAO)

Introduction

This report gives an account of the Corporate Governance arrangements in place within NIAO.

Parliamentary Accountability

1. During the suspension of devolution in Northern Ireland, NIAO was accountable to the Westminster Parliament through the Public Accounts Commission. Since 8th May 2007, NIAO is accountable to the Northern Ireland Assembly through the Assembly's Audit Committee .
2. The Public Accounts Commission scrutinised the NIAO's Estimate but in future this function will be undertaken by the Assembly's Audit Committee. The Estimate sets out the resource requirements for the next financial year.
3. The Estimate is underpinned by a Corporate Plan which NIAO also produces annually. This plan sets out NIAO's work programme for the forthcoming three years together with the resources required and provides details of NIAO's performance for the year just ended. The most recent Corporate Plan covering the years 2007-08 to 2009-10 can be found on NIAO's website, www.niauditoffice.gov.uk. This Corporate Plan is due to be rolled forward one year to 2010-11 and will be presented to the Assembly's Audit Committee in October.

Senior Management Group (SMG)

4. The Comptroller and Auditor General (Mr. John M Dowdall CB) is the Accounting Officer for NIAO and he has allocated responsibilities to senior management along functional lines i.e. Central Government Financial and Value for Money audit and Local Government audit, each of which is headed by an Assistant Auditor General (AAG). In addition to the audit functions there is a Corporate Services Division headed by the Deputy Comptroller and Auditor General (DC&AG).
5. SMG is currently made up of the Comptroller and Auditor General (C&AG), DC&AG, three AAGs, nine other executive directors and two non-executive members. The names of these individuals are given in the Directors' report.
6. In March 2007 SMG carried out a self assessment of its performance. The result of this assessment was that SMG concluded it was operating effectively and following good practice in most areas. The members also recognised that there were areas for development, for example the size and composition of SMG, and these areas are currently under review. An action plan is being drawn up.

7. The Office has a Vision, Mission and Values statement which is set out in the Corporate Plan.
8. To ensure the fulfilment of NIAO's aim and objectives:
 - a) SMG takes an active role in advising on the allocation of resources, both financial and human. It is directly involved in the production of the annual Estimates through its assessment of the resource requirements for each division; by collectively challenging the resultant draft Estimate and the supporting figures and finally by giving approval to the draft Estimate. The same challenge function operates during the compilation of the Corporate Plan.
 - b) SMG receives budget and projected outturn information on a monthly basis for scrutiny and challenge. Quarterly resource accounts are also produced.
 - c) On a quarterly basis each audit division presents a progress report to SMG which monitors the progress of work against predetermined targets. This helps to highlight any potential backlogs, new work or efficiency savings.
9. SMG meets once a month and all meetings have a set agenda with several standing items, e.g. review of the budget. Members are free to submit items for inclusion on the agenda.
10. All meetings are minuted and minutes are placed on the NIAO's website. Approximately one week following the SMG meeting, the outcome of the discussions are communicated to staff through a team briefing process.

Audit Committee

11. The membership of the Audit Committee is comprised of:
 - Two non-executives (one of whom chairs the Committee); and
 - AAGs from the three audit divisions.

The Terms of Reference for the Audit Committee are being reviewed and once this exercise has been completed they will be put on the Office's website. All minutes of Audit Committee meetings are currently available on the website.
12. The Committee meets twice a year and this is considered satisfactory and proportionate to the size and complexity of the organisation.
13. At one of its meetings the Committee considers NIAO's annual report and accounts. At that meeting it is joined by the External Auditor who comments on the progress of the audit to date and highlights any matters arising. Both the Chair of the Audit Committee and the External Auditor report to SMG on

the outcome of the work of Internal Audit and the Annual Report and Accounts respectively.

14. The Committee supports the C&AG in discharging his responsibilities for risk, control and governance.

Other Sub-Committees

15. As well as the Audit Committee, SMG is supported by two standing sub-committees:
 - The Information Technology Strategy Committee which meets to monitor approved strategies and to inform the IT development process; and
 - The Information Technology Security Committee which meets to consider all aspects of IT security.
16. Both of these committees are chaired by SMG members and whilst these groups may develop proposals for the way ahead, these must be put to SMG for discussion and decision, e.g. IT strategy proposals.
17. All members of SMG, including non-executives, are required to complete a 'Conflicts of Interest' Declaration and they are required to inform the Finance Manager of any changes in circumstances which could possibly result in an actual conflict of interest or the perception of one.

The Skills and Experience of SMG Members

18. NIAO considers that SMG has an appropriate mix of staff to enable it to perform effectively:
 - SMG contains a high level of accounting and audit expertise and skills. Over 60% of SMG members are qualified accountants;
 - All executive members are experts in their particular field of audit, in the environment in which NIAO operates, and are fully aware of the expectations of NIAO's stakeholders. Both executive and non-executive members of SMG provide constructive advice and a challenge function when it comes to formulating policy; and
 - NIAO is to introduce a compulsory formal continuous professional development scheme for all staff.
20. The Deputy C&AG is the Principal Establishment and Finance Officer (PEFO) and he is a qualified accountant.

Independent Non-Executives

22. NIAO has two non-executive director members of SMG, Mr. G. Smyth and Mr. G. Martin and both members are considered to be independent in character and judgement.
23. As noted in the Directors' report Mr. Smyth is a Director of the Office of the Irish Comptroller and Auditor General with which NIAO has a professional relationship based on areas of mutual interest. Both Offices are jointly responsible for the audit of the accounts of the North/South Implementation Bodies.
24. NIAO considers that, as Mr. Smyth is a senior member of a national audit institution, he is fully aware of the need for independence and for the need to exercise his professional judgement in an independent way.
25. Mr. Martin, is a lecturer in accounting at the University of Ulster. At present C&AG is a visiting professor at the University but the role he has is one which does not include any payment, is minor in terms of time involved and does not entail any direct dealings with Mr. Martin. NIAO considers therefore that the relationship between C&AG and the University does not impact on the ability of Mr. Martin to exercise independence in his dealings with NIAO.
26. The non-executive directors were appointed by C&AG on the basis of their previous experience. One works in a similar audit institution and has a good understanding and appreciation of the environment within which NIAO operates. The other non-executive has experience of being the Chair of the Audit Committee in another public sector body, similar in size to NIAO and with an associated regulatory role. He also specialises in the area of governance in his post at the University of Ulster.
27. When the non-executive directors were appointed their role and responsibilities were explained to them by C&AG. He also provided one to one informal induction training for both of them. Given their background and previous experiences this was considered to be sufficient and appropriate.
28. C&AG meets periodically with the non-executives individually to provide them with information regarding issues affecting NIAO. He also makes himself available to discuss any issue which may be of concern to one or other and on which they would like more information or have questions.
29. Mr. Martin is also named in NIAO's Whistleblowing policy as a contact point to which NIAO staff may refer concerns about what is happening within NIAO itself.

Internal Controls

30. As noted in the Management Commentary NIAO identifies its risks in accordance with the guidance issued by Treasury in its publication 'The Orange Book – Management of Risk Principles and Concepts'. Further details of these risks and their control can be found there.

J M Dowdall
Comptroller and Auditor General for Northern Ireland

7th June 2007

Directors' Report

Review of 2006-07

As the devolved administration in Northern Ireland remained suspended in 2006-07, NIAO reported the results of its work to Parliament. During that year NIAO contributed to Parliamentary Scrutiny in a number of ways and these are outlined in the Management Commentary report.

Further detail on the work of the Northern Ireland Audit Office, its future challenges, and the impact of its work can be found in its Corporate Plan. This is available on the Northern Ireland Audit Office Website, www.niauditoffice.gov.uk. The Corporate Plan is a three year rolling document which is presented to the Audit Committee of the Northern Ireland Assembly. When devolution is suspended the Corporate Plan is presented to the Public Accounts Commission (TPAC) at Westminster. The plan covering the period 2008-09 to 2010-11 will be presented to the Audit Committee in October 2007.

The information in the 2006-07 – 2008-09 Corporate Plan underpinned the Resource Budget and Estimates for the 2006-07 year. These Estimates were presented to TPAC for approval.

Following the re-establishment of the Assembly the 2007-08 Estimates will be presented to the Assembly's Audit Committee for approval.

Membership of Senior Management

NIAO's Senior Management is comprised of the Comptroller and Auditor General (John M Dowdall CB) and all members of the directorate. NIAO also has two non-executive members who attend Senior Management Group meetings. The role of the Group is to advise the Comptroller and Auditor General for Northern Ireland on the discharge of his statutory duties.

The Comptroller and Auditor General has appointed a Deputy Comptroller and Auditor General for Northern Ireland as the Principal Establishment and Finance Officer whose responsibilities are the same as those set out in "Government Accounting Northern Ireland" for the Principal Finance Officers of government departments.

Senior Management Group Members

The members as at 31 March 2007 were:

Comptroller and Auditor General	J M Dowdall CB
Deputy Comptroller and Auditor General	C J Moore
Assistant Auditor Generals	J Buchanan (Chief Local Government Auditor)
	K J Donnelly
	B J Edgar
Directors	R L Hutcheson
	M A L Mason (Mrs)
	J M Sides (Mrs)
	T G Woodhouse
	D Lynn
	S J A McCormick
	E Bradley
	C Kane (Mrs)
	B McMaster (from 1 st November 2006)
Non- Executive Directors	G Smyth (Office of the Comptroller and Auditor General, Dublin)
	G Martin (University of Ulster)

Committees

In addition to the Senior Management Group, the Comptroller and Auditor General for Northern Ireland is supported by three standing advisory committees:

The Audit Committee – comprising three Assistant Auditor Generals and chaired by a non-executive member (G Smyth). The Committee meets twice a year and addresses issues raised by the Northern Ireland Audit Office's internal and external auditors.

The Information Technology Strategy Committee – comprising two Assistant Auditor Generals, two Directors and the Network Manager, meets to monitor approved strategies and to inform the development process.

The Information Technology Security Committee – comprising one Director, one Audit Manager (Personnel) and the Network Manager.

Auditors of the Northern Ireland Audit Office

Following the suspension of devolution, the Department of Finance and Personnel, acting on the advice of the Westminster Public Accounts Commission, appointed Baker Tilly Mooney Moore (Chartered Certified Accountants and Registered Auditors) as the auditors of the Northern Ireland Audit Office. The cost of the 2006-07 audit is £6,500. Baker Tilly Mooney Moore also undertook several other pieces of work including training in the SAGE accounting package, review of accounting treatment for fixed assets and review of VAT partial exemption status. This work cost £1,350.

Information required by the Auditor

All steps have been taken to ensure that NIAO's auditors have been made aware of all relevant information.

Payment of Suppliers

The Northern Ireland Audit Office is committed to the prompt payment of bills for goods and services received in accordance with the Better Payment Practice Code. Unless otherwise stated in the contract, payment is due within 30 days after delivery of the invoice or of the goods and services, whichever is later.

During 2006-07 the Northern Ireland Audit Office paid approximately 99.18 per cent of bills (2005-06 99.9 per cent) within this standard.

Staff Issues

The Northern Ireland Audit Office has a policy of close co-operation and consultation with the Northern Ireland Audit Office branch of the Northern Ireland Public Service Alliance

and Association of First Division Officers over matters affecting staff. To ensure effective operation of this policy, a Joint Negotiating and Consultative Committee has been established. Staff involvement is also actively encouraged as part of the day-to-day process of line management and information on financial results and current and prospective developments is widely disseminated.

Equal Opportunities

The Northern Ireland Audit Office is committed to the principle of equality of opportunity in employment and has established procedures to ensure that all staff and job applicants are entitled to fair and equal treatment free from unfair and unlawful discrimination.

Disabled Persons

The Northern Ireland Audit Office is fully committed to providing equal opportunity for all staff, and disability itself is not a bar to recruitment, training or to advancement of staff within the Northern Ireland Audit Office.

Health, Safety and Welfare

It is the policy of NIAO to comply fully with the requirements of the Health and Safety at Work (Northern Ireland) Order 1978. This entails ensuring, so far as it is reasonably practicable, the health, safety and welfare of its employees at work and for others who may be affected by its operations. In addition, there is a duty to ensure that the discharge of these responsibilities shall be an integral part of the duties and objectives of NIAO. Accordingly NIAO has established procedures to ensure that this is the case. This includes having a designated Health and Safety Officer responsible for considering and advising on whether the NIAO policy statement on Health and Safety and the organisation and arrangements for carrying out that policy fulfil the requirements of the relevant legislation and regulations in force at any time. A Health and Safety Committee has also been established under the Chairmanship of the Deputy Comptroller and Auditor General and is comprised of the Health and Safety Officer and Health and Safety representatives nominated by the Trade Unions. Staff are encouraged to bring health and safety matters to the attention of these individuals.

In terms of staff welfare NIAO has access to the Department of Finance and Personnel's Staff Welfare Scheme, which exists to enable all staff to be effective at work through the provision of a professional and confidential advice and information service. NIAO has also recently signed up to the Northern Ireland Civil Service contract with Staffcare, another independent and confidential counselling, support and advice service. This service is totally external to the Northern Ireland Civil Service and NIAO.

J M Dowdall
Comptroller and Auditor General for Northern Ireland

7th June 2007

Directors' Remuneration Report

Remuneration Policy

Comptroller and Auditor General

The Audit (Northern Ireland) Order 1987 provides for the remuneration of the Comptroller and Auditor General for Northern Ireland and for it to be met from the Consolidated Fund for Northern Ireland.

Senior Management Group Members

Under the provisions of the Audit (Northern Ireland) Order 1987, the Comptroller and Auditor General for Northern Ireland determines the level of remuneration for all employees within the Northern Ireland Audit Office, including senior executives on the Senior Management Group. In determining the remuneration and other terms and conditions the Comptroller and Auditor General for Northern Ireland is required to have regard to the terms and conditions applying to persons employed in the National Audit Office established under Section 3 of the National Audit Act 1983 and in the Civil Service of Northern Ireland. Each year's settlement is reviewed in the context of the NAO and Northern Ireland Civil Service settlements and the recruitment and wastage circumstances in NIAO.

The pay award for SMG members is a percentage uplift on basic pay. The percentage applied is based on an assessment of performance of an individual throughout the previous year.

Contracts of Employment

Comptroller and Auditor General

Under the provisions of the Northern Ireland Act 1998 the office of the Comptroller and Auditor General for Northern Ireland is a Crown appointment made on the nomination of Northern Ireland Assembly. The Comptroller and Auditor General for Northern Ireland retains office unless removed by a resolution of the Northern Ireland Assembly and supported by at least two thirds of its members. Under the provision of the Audit (Northern Ireland) Order 1987 the Comptroller and Auditor General is a Corporation Sole. The current Comptroller and Auditor General for Northern Ireland is John M Dowdall CB.

Senior Management Group

Appointments to senior management are made by C&AG on the basis of fair and open competition. Unless otherwise stated the officials covered by this report hold appointments which are open-ended until they reach the normal retiring age of 60. When holding competitions and making appointments C&AG will take into account the Northern Ireland Civil Service Commissioners' Recruitment Code.

The Deputy Comptroller and Auditor General (C J Moore) although having reached the age of 60 in September 2005 continues to work for the Northern Ireland Audit Office. He will, however, retire at the end of August 2007.

Remuneration and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the C&AG and senior officials of the Office.

Remuneration of the Comptroller and Auditor General for Northern Ireland

By statute the remuneration of the Comptroller and Auditor General for Northern Ireland and associated employer's national insurance contributions are met directly from the Consolidated Fund. For the year ended 31 March 2007 the amount paid in respect of the Comptroller and Auditor General's remuneration was £175,185.25 (2005-06 £170,283). This was composed of the following;

Salary - £128,556.46 (2005-06 £126,108);
Social Security Costs -£14,789 (2005-06 £14,540); and
Other Pension Costs - £31,839.79 (2005-06 £29,635).

Pensions

Comptroller and Auditor General

The Audit (Northern Ireland) Order 1987 provides for pensionable service by the Comptroller and Auditor General for Northern Ireland to be covered by the Northern Ireland Principal Civil Service Pension Scheme (PCSPS (NI)) which is non-contributory and unfunded. The Order also provides for defined pension benefits to be met from the Consolidated Fund for Northern Ireland and no liability rests with the Northern Ireland Audit Office.

Salary and pension entitlements of the most senior officials of the Northern Ireland Audit Office were as follows:

(2005-06 figures are in brackets)

Name and Title	Salary (as defined below)	Real increase in annual pension at age 60	Real increase in lump sum at age 60	Accrued pension at age 60 at 31 March 2007	Accrued lump sum at age 60 at 31 March 2007	CETV at 31/3/07	Real increase in CETV
	£000	£000	£000	£000	£000	£000	£000
CJ Moore Deputy Comptroller and Auditor General	90-95 (90-95)	0-2.5 (2.5-5)	2.5-5 (7.5-10)	40-45 (40-45)	130-135 (125-130)	n/a n/a	n/a
JS Buchanan Assistant Auditor General	80-85 (75-80)	0-2.5 (0-2.5)	2.5-5 (2.5-5)	40-45 (35-40)	120-125 (110-115)	896 (652)	24
KJ Donnelly Assistant Auditor General	80-85 (75-80)	0-2.5 (0-2.5)	2.5-5 (5-7.5)	20-25 (20-25)	70-75 (65-70)	411 (310)	24
B Edgar Assistant Auditor General	80-85 (80-85)	0-2.5 (2.5-5)	0-2.5 (12.5-15)	40-45 (40-45)	125-130 (120-125)	1,045 (741)	5
RL Hutcheson Director	65-70 (65-70)	0-2.5 (0-2.5)	2.5-5 (2.5-5)	25-30 (25-30)	85-90 (80-85)	624 (465)	19
MAL Mason (Mrs) Director	70-75 (70-75)	0-2.5 (0-2.5)	2.5-5 (2.5-5)	15-20 (10-15)	45-50 (40-45)	242 (184)	13
JM Sides (Mrs) Director	55-60 (60-65)	0-2.5 (0-2.5)	0-2.5 (2.5-5)	15-20 (15-20)	45-50 (50-55)	254 (232)	0
TG Woodhouse Director	65-70 (65-70)	0-2.5 (0-2.5)	0-2.5 (2.5-5)	30-35 (30-35)	95-100 (90-95)	730 (522)	20
AD Lynn Director	60-65 (60-65)	0-2.5 (2.5-5)	2.5-5 (7.5-10)	15-20 (15-20)	55-60 (50-55)	313 (242)	13

Northern Ireland Audit Office Resource Accounts 2006-07

Name and Title	Salary (as defined below)	Real increase in annual pension at age 60	Real increase in lump sum at age 60	Accrued pension at age 60 at 31 March 2007	Accrued lump sum at age 60 at 31 March 2007	CETV at 31/3/07	Real increase in CETV
	£000	£000	£000	£000	£000	£000	£000
SJA McCormick Director	60-65 (60-65)	0-2.5 (0-2.5)	0-2.5 (5-10)	5-10 (5-10)	25-30 (20-25)	159 (116)	13
E Bradley Director	60-65 (55-60)	0-2.5 (2.5-5)	0-2.5 (7.5-10)	15-20 (15-20)	45-50 (45-50)	245 (189)	10
C Kane (Mrs) Director	45-50 (40-45)	0-2.5 (0-2.5)	0-2.5 (0-2.5)	5-10 (5-10)	25-30 (25-30)	127 (99)	8
B McMaster (from 1/11/06)	55-60 50-55	0-2.5 0-2.5	5-7.5 2.5-5	20-25 20-25	65-70 60-65	424 (305)	31

Salary

'Salary' included gross salary, performance pay or bonuses, any allowances to the extent that they are subject to UK taxation. This report is based on payments made by NIAO and thus recorded in these accounts.

Benefits in Kind

None of the above received benefits in kind during 2006-07.

Non-Executive Directors

During 2006-07 NIAO had two non-executive directors:

- Mr. G Smyth from the Office of the Irish Comptroller and Auditor General. Mr. Smyth attends some Senior Management Group meetings and chairs the Audit Committee. No payment was made to Mr. Smyth for attendance at these meetings.
- Mr. G Martin from the University of Ulster. Mr. Martin also attends Senior Management Group Meetings and attends the Audit Committee. During the year Mr. Martin was paid £2,750.

Pensions

Pension benefits are provided through the Civil Service pension arrangements. From 1 October 2002, civil servants may be in one of three statutory based 'final salary' defined benefit schemes (classic, premium and classic plus). The schemes are unfunded with the cost of benefits met by monies voted by Parliament each year. Pensions payable under classic, premium and classic plus are increased annually in line with changes in the Retail Prices Index. New entrants after 1 October 2002 may choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account).

Employee contributions are set at a rate of 1.5% of pensionable earnings for classic and 3.5% for premium and classic plus. Benefits in classic accrue at the rate of 1/80th of pensionable salary for each year of service. In addition, a lump sum equivalent to three years' 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 (but members may give up (commute) some of their pension to provide a lump sum). Classic plus is essentially a variation of premium, but with benefits in respect of service before 1 October 2002 calculated broadly in the same way as in classic.

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. 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 60, or on immediately ceasing to be an active member of the scheme if they are already 60.

Further details about the Civil Service pension arrangements can be found at the website www.civilservicepensions-ni.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 CETV figures, and from 2003-04 other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the Civil Service Pension arrangements and for which the Department of Finance and Personnel Superannuation Scheme Vote has received a transfer payment commensurate with the additional pension liabilities being assumed. They also include any additional pension benefit accrued to the member as a result of their purchasing additional years of pension service in the scheme at their own cost. CETVs are calculated within the guidelines and framework prescribed by the Institute and Faculty of Actuaries.

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.

J M Dowdall
Comptroller and Auditor General for Northern Ireland

7th June 2007

Statement of Accounting Officer's Responsibilities

Under Article 6(3) of the Audit (Northern Ireland) Order 1987 the Northern Ireland Audit Office is required to prepare resource accounts for each financial year of the kind mentioned in Section 9 of the Government Resources and Accounts Act (Northern Ireland) 2001, detailing the resources acquired, held or disposed of during the year and the use of resources by the Northern Ireland Audit Office during the year.

The resource accounts are prepared on an accruals basis and must give a true and fair view of the state of affairs of the Northern Ireland Audit Office, the net resource outturn, resources applied to objectives, recognised gains and losses and cash flows for the financial year.

Under the Audit (Northern Ireland) Order 1987 the Department of Finance and Personnel has appointed the Comptroller and Auditor General for Northern Ireland to be responsible as Accounting Officer for the Northern Ireland Audit Office with responsibility for preparing the Northern Ireland Audit Office's accounts and for transmitting them to the auditor.

In preparing these accounts, the Comptroller and Auditor General for Northern Ireland takes account of the requirements of the Government Financial Reporting Manual prepared by the Department of Finance and Personnel, and in particular to:

- Observe the relevant accounting and disclosure requirements, and apply suitable accounting policies on a consistent basis;
- Make judgments and estimates on a reasonable basis;
- State whether applicable accounting standards, as set out in the Northern Ireland Resource Accounting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- Prepare the accounts on a going concern basis.

The Comptroller and Auditor General for Northern Ireland's relevant responsibilities as Accounting Officer, including responsibility for the propriety and regularity of the Northern Ireland Audit Office's finances for which he is answerable, for keeping of proper records and for safeguarding the Northern Ireland Audit Office's assets, are set out in the Accounting Officer's Memorandum issued by the Department of Finance and Personnel and published in Government Accounting Northern Ireland.

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 Northern Ireland Audit Office policies, aims and objectives, whilst safeguarding the public funds and the Office's assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Government Accounting Northern Ireland.

The Audit Committee of the Northern Ireland Assembly considers the Office's Corporate Plan and Estimate and lays the annual Estimate before the Northern Ireland Assembly. During the suspension of devolution in Northern Ireland, responsibility for the endorsement of the Office's Corporate Plan and for oversight of the Estimate reverted to the Public Accounts Commission at Westminster.

The Office's Senior Management Group directs the work of the Office. The Comptroller and Auditor General for Northern Ireland chairs the group.

There is a comprehensive reporting and accountability system provided through the Senior Management Group's meetings with me as Accounting Officer. Checks and balances are provided by Internal and External Audit and by the Office's Audit Committee.

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 Office policies, aims 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 Northern Ireland Audit Office for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts and accords with DFP guidance.

3. Capacity to Handle Risk

The Northern Ireland Audit Office has well-established corporate planning and management arrangements which address business risks. The key elements are;

- A business strategy review;
- A three year corporate plan approved by the Northern Ireland Assembly's Audit Committee;
- Preparation of operational plans by each Division for the year ahead;

- Agreed programmes and allocation of resources to Divisions; and
- Regular monitoring of outputs and inputs by the Senior Management Group.

The Office also has well-established approaches to managing the quality of its outputs through internal and external quality assurance, the results of which are reported to the Senior Management Group.

The risk management strategy is communicated to all staff. This includes the Office's approach to risk management, the priorities, lead responsibilities and the role of individual members of staff, and monitoring and reporting arrangements.

4. The Risk and Control Framework

The four strategic areas which the Office needs to manage actively have been set out in a risk register and each Assistant Auditor General has taken responsibility for one of the areas. The areas are:

- Central Services
- Central Government Financial Audit
- Central Government Value for Money Audit
- Local Government Audit

Each of the four areas has been analysed to identify individual sub-risks which, if not managed may lead to the crystallisation of the strategic risk. For each sub-risk, controls have been identified which help to manage the risks and the action required to ensure the controls are operating.

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 auditor and the executive managers within the Northern Ireland Audit Office 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 result of my review of the effectiveness of the system of internal control by the senior management of the Office and the Audit Committee and a plan to address weaknesses and ensure continuous improvement of the system is in place.

Twice a year the Assistant Auditor Generals report the status of each risk to the Senior Management Group, indicating the extent to which assurance can be given that the risk is being managed effectively. As necessary, Assistant Auditor Generals seek formal assurances from Directors and Audit Managers that controls have operated effectively over the period. If necessary the report will set out remedial action being taken where a risk has crystallised.

Northern Ireland Audit Office Resource Accounts 2006-07

At divisional level, the Directorate and Managers will normally review risks on a monthly basis at Divisional meetings.

An important element of the Office's approach to risk management is the early identification of new types of risk in response to business developments and changes in the environment in which the Northern Ireland Audit Office works. New sub-risks will be added to the risk register over the course of the year. Equally, some risks which become less important will be reviewed and, where appropriate, removed from the risk register.

J M Dowdall
Comptroller and Auditor General for Northern Ireland

7th June 2007

Northern Ireland Audit Office

THE CERTIFICATE AND REPORT OF THE AUDITOR TO THE HOUSE OF COMMONS AND THE NORTHERN IRELAND ASSEMBLY

We certify that we have audited the financial statements of the Northern Ireland Audit Office for the year ended 31 March 2007 under the Government Resources and Accounts Act (Northern Ireland) 2001. These comprise the Statement of Parliamentary Supply, the Operating Cost Statement and Statement of Recognised Gains and Losses, the Balance Sheet, the Cashflow Statement and the Statement of Operating Costs by Departmental Aim and Objectives and the related notes. These financial statements have been prepared under the accounting policies set out within them. We have also audited the information in the Remuneration Report that is described in that report as having been audited.

Respective Responsibilities of the Accounting Officer and Auditor

The Accounting Officer is responsible for preparing the Annual Report and the financial statements in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and Department of Finance and Personnel directions made thereunder and for ensuring the regularity of financial transactions. These responsibilities are set out in the Statement of Accounting Officer's Responsibilities.

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements, and with International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and whether the Financial Statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Department of Finance directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001. We report to you whether, in our opinion, certain information given in the Annual Report, is not consistent with the financial statements. We also report whether 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.

In addition, we report to you if NIAO has not kept proper accounting records, if we have not received all the information and explanations we require for our audit, or if information specified by the Department of Finance and Personnel regarding remuneration and other transactions is not disclosed.

We review whether the Statement on Internal Control reflects NIAO's compliance with the Department of Finance and Personnel's guidance, and we report if it does not. We are not required to consider whether this statement covers all risks and controls, or to form an opinion on the effectiveness of the Department's corporate governance procedures or its risk and control procedures.

We read the other information contained in the Annual Report and consider whether it is consistent with the audited financial statements. We consider the implications for our certificate if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of Audit Opinion

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. Our audit includes examination, on a test basis, of evidence relevant to the amounts, disclosures and regularity of financial transactions included in the financial statements and the part of the Remuneration Report to be audited. It also includes an assessment of the significant estimates and judgments made by the Accounting Officer in the preparation of the financial statements, and of whether the accounting policies are most appropriate to the Northern Ireland Audit Office's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the financial statements and the part of the Remuneration Report to be audited are free from material misstatement, whether caused by fraud or error, and that 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. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the financial statements and the part of the Remuneration Report to be audited.

Opinions

Audit Opinion

In our opinion:-

- the financial statements give a true and fair view, in accordance with the Government Resources and Accounts Act (Northern Ireland) 2001 and directions made thereunder by the Department of Finance and Personnel, of the state of the NIAO affairs as at 31 March 2007, and the net cash requirement, net resource outturn, net operating cost, operating costs applied to objectives, recognised gains and losses and cashflows for the year then ended;
- the financial statements and the part of the Remuneration Report to be audited have been properly prepared in accordance with Department of Finance and Personnel directions issued under the Government Resources and Accounts Act (Northern Ireland) 2001; and
- information given within the Annual Report, is consistent with the financial statements.

Audit Opinion on Regularity

In our 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.

We have no observations to make on these financial statements.

7th June 2007

Baker Tilly Mooney Moore
Chartered Certified Accountants and Registered Auditors
24-38 Gordon Street
Belfast
BT1 2LG

Northern Ireland Audit Office Resource Accounts 2006-07

Summary of income payable to the Consolidated Fund

In addition to accruing resources, the following income relates to the Northern Ireland Audit Office and is payable to the Consolidated Fund.

	Note	Forecast 2006-07		Outturn 2006-07	
		Income £000	Receipts £000	Income £000	Receipts £000
Total	4	-	-	152	108

The notes on pages 39 to 58 form part of these accounts

Operating Cost Statement

For the year ended 31 March 2007

				2006-07 £000	2005-06 £000
	Note	Staff Costs	Other Costs	Income	
Administration costs					
Staff Costs	7	7,115			6,688
Other Administration costs	8		3,144		2,744
Operating Income	9			(1,995)	(1,965)
Totals		7,115	3,144	(1,995)	7,467
Net Operating Cost				8,264	7,467

All income and expenditure are derived from continuing operations.
There were no acquisitions or disposals in the year.

The notes on pages 39 to 58 form part of these accounts

**Statement of Recognised Gains and Losses
for the year ended 31 March 2007**

	2006-07	2005-06
Note	£000	£000
Net unrealised gain on revaluation of tangible fixed assets	18 826	52

The notes on pages 39 to 58 form part of these accounts

Balance Sheet as at 31 March 2007

	Note	31 March 2007		31 March 2006	
		£000	£000	£000	£000
Fixed Assets					
Tangible Assets	10	5,231		4,120	
Intangible Assets	11	90	5,321	31	4,151
Current Assets					
Debtors	13	237		115	
Cash at bank and in hand	14	590		128	
Work in Progress	12	<u>471</u>		<u>263</u>	
		1,298		506	
Creditors (amounts falling due within one year)	15	(1,273)		(467)	
Net Current Assets			<u>25</u>		<u>39</u>
Total Assets less Current Liabilities			5,346		4,190
Provisions for liabilities and charges	16		<u>(33)</u>		<u>(147)</u>
			<u>5,313</u>		<u>4,043</u>
Taxpayers' Equity					
General Fund	17		1,912		1,530
Revaluation Reserve	18		<u>3,401</u>		<u>2,513</u>
			<u>5,313</u>		<u>4,043</u>

J M Dowdall
Comptroller and Auditor General for Northern Ireland

7th June 2007

The notes on pages 39 to 58 form part of these accounts

Cash Flow Statement for the year ended 31 March 2007

	Note	2006-07	2005-06
		£000	£000
Net cash outflow from operating activities	20 (a)	(7,785)	(6,957)
Capital expenditure	20 (b)	(742)	(179)
Payments of amounts due to the Consolidated Fund		(97)	(59)
Financing	20 (c)	9,086	7,641
Increase/ (Decrease) in cash in the period	20 (d)	462	446

The notes on pages 39 to 58 form part of these accounts

**Statement of Operating Costs by Departmental Aim and Objectives
for the year ended 31 March 2007**

	2006-07			2005-06		
	Gross £000	Income £000	Net £000	Gross £000	Income £000	Net £000
Objective 1 Certifying and reporting on accounts	6,681	1,970	4,711	6,254	1,940	4,314
Objective 2 Value for money work	2,858	25	2,833	2,494	25	2,469
Objective 3 Examining and reporting on risks to financial systems, regularity and propriety	478	-	478	457	-	457
Objective 4 Other work for Parliament and the Public	205	-	205	195	-	195
Objective 5 Comptroller function	37	-	37	32	-	32
Net operating costs	10,259	1,995	8,264	9,432	1,965	7,467

The notes on pages 39 to 58 form part of these accounts

Notes to the Resource Accounts

1. Statement of Accounting Policies

The financial statements have been prepared in accordance with the 2006-07 *Government Financial Reporting Manual (FReM)* issued by the Department of Finance and Personnel. The accounting policies contained in *FReM* follow UK Generally Accepted Accounting Practice for companies (UK GAAP) to the extent that it is meaningful and appropriate to the public sector.

In addition to the primary statements prepared under UK GAAP, *FReM* also requires the Office to prepare two additional primary statements. The *Statement of Parliamentary Supply* and supporting notes showing outturn against the Estimate in terms of the net resource requirement and the net cash requirement. The consolidated *Statement of Operating Cost by Departmental Aim and Objectives* and supporting notes analyse the Northern Ireland Audit Office's income and expenditure by objective.

Where *FReM* permits a choice of accounting policy, the accounting policy which has been judged to be the most appropriate to the particular circumstances of the Northern Ireland Audit Office for the purpose of giving a true and fair view has been selected. The Northern Ireland Audit Office's accounting policies have been applied consistently in dealing with items considered material in relation to the accounts.

Accounting Convention

- 1.1 These accounts have been prepared under the historical cost convention modified to account for the revaluation of fixed assets

Intangible Fixed Assets

- 1.2 Intangible fixed assets comprise capitalised operational software licenses and the costs involved in implementing the software. The cost of licences and implementation costs are amortised over their expected useful lives of three years. The minimum level for capitalisation of an intangible fixed asset is £500.

Tangible Fixed Assets

- 1.3 Long leasehold land and buildings have been included on the basis of professional valuations performed by the Valuations and Lands Agency. Office and computer equipment, fixtures and fittings, have been restated using valuation techniques produced by the Office for National Statistics. The minimum level for capitalisation of a tangible fixed asset is £500.

Depreciation

- 1.4 Depreciation is provided at rates calculated to write-off the valuation of all tangible fixed assets by equal instalments over their estimated useful lives. Assets lives are normally in the following ranges:

Computers	3 years
Other Equipment	5 years
Furniture, fixtures and fittings	10-20 years

The term of the lease for long leasehold land and buildings is 50 years. A revaluation was undertaken at 31 March 2007, at which time the Valuation and Lands Agency reassessed the lease as having 43 years remaining. Depreciation is charged on the re-valued amount over the remaining term of the lease.

Work in Progress

- 1.5 Work in progress is valued at the lower of cost, including appropriate overheads, and net realisable value.

Operating Income

- 1.6 Operating income is income which relates directly to the operating activities of NIAO. It principally comprises fees and charges for services provided by statute or by agreement with the National Audit Office (NAO) and client organisations. Income represents the amounts derived from the provision of completed work for clients during the year and includes an appropriate allowance for work in progress on assignments which will be completed in the following year, including six North/South Implementation Bodies. Additionally, income is received from the Department of the Environment in respect of the cost of providing staff for the audit of District Councils. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with FReM is treated as operating income. Operating income is stated net of VAT.

Capital charge

- 1.7 A charge, reflecting the cost of capital utilised by NIAO, 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 balances held in bank accounts within the Northern Ireland Civil Service pool and amounts to be surrendered to the Consolidated Fund.

Operating Leases

- 1.8 The total cost of operating leases is expensed in equal instalments over the life of the lease.

Pensions

- 1.9 Present and past employees of the Northern Ireland Audit Office are covered by the provisions of the Principal Civil Service Pension Scheme (Northern Ireland) ((PCSPS) (NI)). The defined benefit scheme is unfunded and is non-contributory except in respect of dependent's benefits. NIAO recognises the expected cost of these elements on a systematic and rational basis over the period during which it benefits from the employees' services by a payment to the PCSPS (NI) of amounts calculated on an accruing basis. Liability for payment of future benefits is a charge on PCSPS (NI).

Provisions

1.10 Early Departure Costs

The Northern Ireland Audit Office is required to meet the cost of paying the pensions of employees who retire early, from the date of retirement until they reach normal pensionable age. The Northern Ireland Audit Office provides in full for the cost of meeting pensions up to normal retirement age in respect of early retirement programmes operating in the current or previous periods.

1.11 Legal Costs

The Northern Ireland Audit Office provides for the best estimate of the cost of legal advice which it obtains as part of its audit of Local Government accounts.

Value Added Tax

- 1.12 All income and expenditure in the account is stated exclusive of value added tax. The Office can recover value added tax at a partial exemption rate. For 2006-07 this was a rate of 8 per cent (8 per cent in 2004-05) based on the percentage of business income over total income.

Contingent Liabilities

- 1.13 NIAO has contingent liabilities in respect of legal action involving the Local Government section of NIAO.

2. Reconciliation of Outturn to Net Operating cost

				2006-07 £000	2005-06 £000
	Notes	Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn		8,241	8,576	(335)	7,394
Non-supply income (CFERS)	5	(152)	-	(152)	(97)
Non-supply expenditure	8	175	-	175	170
Net Operating Cost		8,264	8,576	(312)	7,467

3. Reconciliation of Resources to Cash Requirement

	Notes	Estimate	2006-07 £000 Outturn	2006-07 £000 Net total Outturn Compared with Estimate: Saving/(excess)
Resource Outturn	2	8,576	8,241	(335)
Capital				
Acquisition of Fixed Assets	10,11	950	659	(291)
Investments		-	-	-
Non-operating AR		-	-	-
Proceeds of fixed asset disposal		-	-	-
Accruals adjustments				
Non-cash items	8	(600)	(621)	(21)
Changes in working capital other than cash		-	69	69
Changes in creditors falling due after more than one year		-	-	-
Use of provision	16	112	112	-
Excess cash receipts surrenderable to the Consolidated Fund		-	-	-
Net Cash Requirement		9,038	8,460	(578)

4. Analysis of Income payable to the Consolidated Fund

In addition to Accruing Resources, the following income related to the NIAO and is payable to the Consolidated Fund

	Forecast 2006-07 £000		Outturn 2006-07 £000	
	Income	Receipts	Income	Receipts
Operating income and receipts – excess AR	-	-	140	96
Other Operating income and receipts not classified as ARs	-	-	12	12
			<u>152</u>	<u>108</u>
Non-operating income and receipts – excess ARs	-	-	-	-
Other non-operating income and receipts not classified as ARs	-	-	-	-
Other amounts collectable on behalf of the Consolidated Fund	-	-	-	-
Excess cash surrenderable to the Consolidated Fund	-	-	-	-
Total income payable to the Consolidated Fund	-	-		

5. Reconciliation of Income recorded within the Operating Cost Statement to Operating Income payable to the Consolidated Fund

	Note	2006-07 £000	2005-06 £000
Operating Income	9	1,995	1,965
Adjustments for transactions between RFRs		-	-
		<u>1,995</u>	<u>1,965</u>
Income authorised to be used as ARs		1,843	1,868
Operating income payable to the Consolidated Fund	4	152	97

6. Analysis of Income from services provided to clients

	2006-07			2005-06		
	Income £000	Full Cost £000	Surplus/ (deficit) £000	Income £000	Full Cost £000	Surplus/ (deficit) £000
NAO Agency Fees	778	769	9	710	698	12
Other Audit Fees	1,205	1,264	(59)	1,254	1,302	(48)
Other Income	12	0	12	1	-	1
	1,995	2,033	(38)	1,965	2,000	(35)

The Northern Ireland Audit Office has a target of recovering the full cost of undertaking fee paying work. The information here is provided solely to meet the requirements of the Department of Finance and Personnel's "Fees and Charges" guide and is not disclosed for the purpose of SSAP 25.

7. Staff numbers and related costs

Staff costs consist of:

	2006-07			2005-06
	£000	£000	£000	£000
	Total	Permanently employed staff	Others	Total
Wages and Salaries	5,621	5,090	531	5,212
Social Security Costs	458	457	1	454
Other Pension Costs (including ERC)	1,036	1,030	6	1,022
Subtotal	7,115	6,577	538	6,296
Less recoveries In respect of outward secondments	-	-	-	-
Total net costs*	7,115	6,577	538	6,688

*Of the total, £nil has been charged to capital

Northern Ireland Audit Office Resource Accounts 2006-07

The PCSPS (NI) is an unfunded benefit scheme which produces its own resource accounts, but the Northern Ireland Audit Office is unable to identify its share of the underlying assets and liabilities. The most up to date actuarial valuation was carried out as at 31 March 2003 and details of this valuation are available in the PCSPS (NI) resource accounts.

For 2006-07, employers' contributions of £1,036,068.56 were payable to the PCSPS (NI) (2005-06 £1,021,568.10) at one of four rates in the range 16.5 to 23.5 percent of pensionable pay, based on salary bands (the rates in 2005-06 were between 16.5 and 23.5 per cent).

Employees can opt to open a partnership pension account, which is a stakeholder pension with an employer contribution. Employers' contributions of £nil (2005-06 £nil) were paid to a panel of four appointed stakeholder pension providers. Employer contributions are age-related and range from 3 to 12.5 per cent (2005-06 3 to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. No contributions were payable to PCSPS (NI) to cover the cost of future provision of lump sum benefits on death in service and ill health retirement of these employees.

Average number of persons employed

The average number of whole-time equivalent persons employed during the year was as follows;

Objective	2006-07 Number			2005-06 Number
	Total	Permanently employed staff	Others	Total
1. Certifying and reporting on accounts	89	84	5	90
2. Value for money work	42	39	3	41
3. Examining and reporting on risks to financial systems, regularity and propriety	6	5	1	6
4. Other work for Parliament and the Public	3	3	-	2
5. Comptroller function	1	1	-	1
Staff engaged on capital projects	-	-	-	-
Total	141	132	9	140

8. Non-staff Administration Costs

	Notes	2006-07		2005-06	
		£000	£000	£000	£000
Rentals under operating leases		72		97	
Accommodation		296		281	
Modifications to University Street		138		8	
Professional Services Brought In		37		6	
Travel, Subsistence, Hospitality		131		132	
Recruitment and training		296		178	
Office Supplies/Equipment		83		96	
Other Indirect costs		76		75	
Computer Services		104		81	
Consolidated Fund Standing Services	17	175		170	
Contracted Out Audits		1019		982	
Legal Fees		88		57	
External Auditor's Fees - audit		7		6	
External Auditor's Fees - other		<u>1</u>	2,523	<u>6</u>	2,174
Non-cash items:					
Cost of Capital Charge	17	157		149	
Depreciation	10,11	349		247	
Provision provided for in year	16	-		147	
Loss on Revaluation of Fixed Assets		12		20	
Provision not required written back	16	(2)		(1)	
Fixed asset opening balance adjustment	10	1		-	
Loss on disposal of Fixed Asset		98		-	
Notional Costs		<u>6</u>	<u>621</u>	<u>8</u>	<u>570</u>
Total			3,144		2,744

Northern Ireland Audit Office Resource Accounts 2006-07

9. Income

	2006-07 £000	2005-06 £000
Income from NAO	778	710
Other Audit Fees	1,205	1,254
Other Income	12	1
Total	1,995	1,965

10. Tangible Fixed Assets

	Long Leasehold Land and Buildings	Computer and Other Equipment	Furniture and Fixtures and Fittings	Assets in the course of construction	Total
Cost or Valuation:	£000	£000	£000	£000	£000
At 1 April 2006	3,500	251	1,349	63	5,163
O/b adjustment	-	-	-	(1)	(1)
Reclassification	-	-	26	(26)	-
Relifing	-	-	62	-	62
Additions	-	141	445	19	605
Disposals	-	(76)	(206)	-	(282)
Revaluations	750	(19)	31	-	762
At 31 March 2007	4,250	297	1,707	55	6,309
Depreciation:					
At 1 April 2006	-	167	876	-	1,043
Reclassifications	-	-	-	-	-
Charged in year	60	127	90	-	277
Disposals	-	(76)	(108)	-	(184)
Revaluations	(60)	(14)	16	-	(58)
Re-lifing	-	-	-	-	-
At 31 March 2007	-	204	874	-	1,078
Net Book Value At 31 March 2007	4,250	93	833	55	5,231
At 31 March 2006	3,500	84	473	63	4,120
Asset Financing					
Owned					
Finance Leased	-	-	-	-	-
On-balance sheet	-	-	-	-	-
PFI contracts	-	-	-	-	-
PRI residual contracts	-	-	-	-	-
Net book value at 31 March 2007	4,250	93	833	55	5,231

Assets in the course of construction

In 2006-07 NIAO carried out work to its headquarters. Amounts included in this category represent the final elements of this expenditure.

Re-lifing of Assets

Following a review of certain assets included within the 'Furniture, Fixtures and Fittings' category, it was decided to re-life a number of assets from 10 to 20 years.

11. Intangible Fixed Assets

	Software licences and implementation costs £000
Cost or Valuation:	
At 1 April 2006	78
Additions	137
Disposals	(15)
Revaluation	(13)
At 31 March 2007	187
Depreciation:	
At 1 April 2006	47
Charged in year	72
Disposals	(15)
Revaluations	(7)
At 31 March 2007	97
Net Book Value	
At 31 March 2007	90
At 31 March 2006	31

Total fixed asset additions are £742K. In note 3 they are shown as £659K, the difference between the two is the movement in the capital creditor of £83K as shown in note 15.

12. Work in Progress

	2006-07 £000	2005-06 £000
Work in progress	471	263

13. Debtors

	2006-07 £000	2005-06 £000
Debtors relating to operating activities		
Trade debtors	37	6
Other debtors	134	41
Prepayments	<u>66</u>	<u>68</u>
	237	115
Amounts due from Consolidated Fund in respect of Supply	-	-
Total	237	115

There is £139,887.35 (2005-06 £96,925.20) that will be due to the Consolidated Fund once the debts are collected.

14. Cash at bank and in hand

	2006-07 £000	2005-06 £000
Balance at 1 April 2006	128	(318)
Net Cash inflow/(outflow)	<u>462</u>	<u>446</u>
Balance at 31 March 2007	590	128
The balance comprises:		
Cash due to be paid to the Consolidated Fund		
Consolidated Fund extra receipts received and due to be paid to the Consolidated Fund	12	1
Amounts issued from the Consolidated Fund for Supply but not spent at year end	578	127
Amounts due from the Consolidated Fund for Supply spent at the year end	-	-
	<u>590</u>	<u>128</u>

Northern Ireland Audit Office Resource Accounts 2006-07

	2005-06			
	Early departure costs £000	Legal costs £000	Other £000	Total £000
Balance at 1 April 2005	11	15	-	26
Provided in the year	84	-	63	147
Provisions not required written back	-	(1)	-	(1)
Provisions utilised in the year	(11)	(14)	-	(25)
Balance at 31 March 2006	84	0	63	147

Early departure costs

The Northern Ireland Audit Office meets the additional pension costs of any employees who retire before they reach normal pensionable age. The total pension liability up to the normal retiring age in respect of such employees is charged to the account in the year in which the early retirement decision is made to establish a provision for the estimated payments discounted by the Treasury discount rate.

Legal costs

The provision relates to legal costs incurred by the Local Government Audit Division of the Northern Ireland Audit Office.

Other

This relates to a personnel issue where full provision has been made but the matter has not yet been completely resolved.

17. General Fund

The General Fund represents the total assets less liabilities of NIAO, to the extent that the total is not represented by other reserves and financing items.

	Note	2006-07 £000	2005-06 £000
Balance at 1 April 2006		1,530	1,743
Net Parliamentary Funding Drawdown	20 (c)	8,911	7,151
Deemed Supply		127	-
Consolidated Fund Standing Services	8	175	170
Supply (creditor)/debtor – current year	15	(578)	(127)
Net Operating Cost	2	(8,264)	(7,467)
CFERS repayable to Consolidated Fund	4	(152)	(97)
Non-cash charges			
Cost of Capital	8	157	149
Notional Costs	8	6	8
Balance at 31 March 2007		1,912	1,530

18. Revaluation Reserve

The revaluation reserve reflects the unrealised element of the cumulative balance of indexation and revaluation adjustments.

	2006-07 £000	2005-06 £000
Balance at 1 April 2006	2,513	2,445
Unrealised gain on tangible fixed assets during the year	826	52
Adjustment in respect of re-lifed assets	<u>62</u>	<u>16</u>
Balance at 31 March 2007	3,401	2,513

20. Notes to the Cash Flow Statement

20 (a) Reconciliation of operating cost to operating cash flows

	Note	2006-07 £000	2005-06 £000
Net operating cost	2	(8,264)	(7,467)
Adjustments for non-cash transactions	8	621	570
(Increase)/decrease in work in progress	12	(208)	(88)
(Increase)/decrease in debtors <i>less movements in debtors relating to items not passing through the OCS</i>	13	(122) -	390 (320)
Increase/(decrease) in creditors <i>Less movements in creditors relating to items not passing through the OCS</i>	15	806 (506)	148 (165)
Use of provisions	16	<u>(112)</u>	<u>(25)</u>
Net cash outflow from operating activities		(7,785)	(6,957)

20 (b) Analysis of capital expenditure and financial investment

	Note	2006-07 £000	2005-06 £000
Tangible fixed asset additions	10	605	156
Intangible fixed asset additions	11	<u>137</u>	<u>23</u>
Net cash outflow from investing activities		742	179

20 (c) Analysis of financing

	Note	2006-07 £000	2005-06 £000
From the Consolidated Fund (Supply) – current year	17	8,911	7,151
From the Consolidated Fund (Supply) – Prior year		-	320
From the Consolidated Fund (non-supply)	8	<u>175</u>	<u>170</u>
Net Financing		9,086	7,641

20 (d) Reconciliation of Net Cash Requirement to Increase/(decrease) in cash

	Note	2006-07 £000	2005-06 £000
Net Cash Requirement	3	(8,460)	(7,024)
From the Consolidated Fund (Supply) – current year	17	8,911	7,151
From the Consolidated Fund (Supply) – Prior year		-	320
Amounts due to the Consolidated Fund – received in a prior year and paid over		(1)	(2)
Amounts due to the Consolidated Fund and not paid over	15	12	1
Increase/(decrease) in cash		462	446

21. Note to Statement of Operating Costs by Departmental Aim and Objectives

Staff and other direct job costs are allocated to objectives on the basis of costs recorded in the Northern Ireland Audit Office's time recording system. Non-direct job costs are allocated to objectives by apportioning them on a pro-rata basis to direct job costs.

The Northern Ireland Audit Office's capital is employed exclusively for administration purposes. Its distribution between objectives is therefore not markedly different from the distribution of the related gross administration cost.

22. Capital Commitments

At the balance sheet date NIAO has a capital commitment of £185K in respect of alterations to its current accommodation. This expenditure is covered by contracts already entered into.

23. Commitments under leases

Commitments under operating leases to pay rentals during the year following the year of these accounts are given in the table below, analysed according to the period in which the lease expires.

	2006-07 £000	2005-06 £000
Obligations under operating leases comprise:		
Land and buildings:		
Expiry within 1 year	-	-
Expiry within 2 to 5 years	-	37
Expiry thereafter	-	30
Photocopiers:		
Expiry within 1 year	-	-
Expiry within 2 to 5 years	6	6
Expiry thereafter	-	-

24. Other Financial Commitments

The Northern Ireland Audit Office had no other financial commitments as at 31 March 2007.

25. Financial Instruments

FRS 13, Derivatives and Other Financial Instruments, requires disclosure of the role which financial instruments have had during the period in creating or changing the risks an entity faces in undertaking its activities. Because of the largely non-trading nature of its activities and the way in which it is financed, the Northern Ireland Audit Office is not exposed to the degree of financial risk faced by business entities. Moreover, financial instruments play a much more limited role in creating or changing risk than would be typical of the listed companies to which FRS 13 mainly applies. The Northern Ireland Audit Office has no powers to borrow or invest surplus funds. Financial assets and liabilities are generated by day-to-day operational activities and are not held to change the risks facing the Office in undertaking its activities.

As permitted by FRS 13, debtors and creditors which mature or become payable within 12 months from the balance sheet date have been omitted from the currency profile.

Liquidity Risk

The Northern Ireland Audit Office's net revenue resource requirements are financed by resources voted annually by Parliament, as is its capital expenditure. The Northern Ireland Audit Office is not therefore exposed to significant liquidity risks.

Interest Rate Risk

The Northern Ireland Audit Office is not exposed to any interest rate risk.

Foreign Currency Risk

The Northern Ireland Audit Office is not exposed to any foreign currency risk.

26. Contingent Liabilities disclosed under FRS 12

At the balance sheet date the Local Government Audit Section of the Northern Ireland Audit Office was involved in legal appeals against surcharges imposed by the auditor on two councils. If either or both of the appeals are successful, it is possible that an award of costs may be made against the auditor. A reasonable estimate of the value of these costs cannot be made at this time.

27. Losses and Special Payments

No exceptional kinds of expenditure such as losses and special payments that require separate disclosure because of their nature or amount were incurred.

28. Related Party Transactions

The Northern Ireland Audit Office is headed by the Comptroller and Auditor General for Northern Ireland and was established by the Audit (Northern Ireland) Order 1987.

None of the Senior Management Group, key managerial staff or other related parties has undertaken any material transactions with the Northern Ireland Audit Office during the year.

The Northern Ireland Audit Office has had a small number of transactions with other government departments and other central government bodies. Most of these transactions have been with the Department of Finance and Personnel.



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