



Northern Ireland Audit Office

Annual Report and Accounts 2015-2016

**Northern Ireland Audit Office Annual Report and Accounts
For the year ended 31 March 2016**

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Performance Report

Overview

Comptroller and Auditor General's Statement

In this time of extensive change across government with the public sector facing continued financial austerity and unprecedented challenges, public audit has an important role to play in providing independent assurance and advice on the use of public funds, holding government to account, and supporting and promoting improvement in the delivery of public services. During this reporting period, the Office remained resolutely committed to providing a professional, cost-effective audit service to meet the expectations and needs of the Assembly and other stakeholders



Kieran Donnelly
Comptroller and Auditor General
for Northern Ireland

Our achievements in 2015-16 have been wide-ranging, encompassing the audit of 223 accounts from across the central and local government sectors and the publication of nine reports covering the findings from our financial audit work and value for money examinations in areas such as education, transport and land deals.

We also published a good practice guide, 'Managing Fraud Risk in a Changing Environment', which highlighted emerging fraud risks and reinforced the need for fraud awareness in a dramatically changing public sector environment. We worked closely with audited bodies to promote good practice in governance arrangements and help combat fraud; continued to provide independent support to the Assembly, in particular the Public Accounts Committee in its six sessions on our public reports; and pursued over 50 concerns relating to the use of public money raised by elected representatives and the wider public.

As a public audit agency it is important that the Office demonstrates value for money in the services it provides and a key measure we use is the savings to the public purse resulting from our work and that of the Assembly's Public Accounts Committee. In respect of 2015-16 we identified financial impact of £14.3 million, 1.7 times the net resource outturn of the Office.

In delivering our services, we face significant budgetary pressures like the rest of the public sector. Over the past number of years efficiencies and cost reductions have been secured by a range of means, but notably in this reporting period through internal restructuring to improve our flexibility and agility to meet business need, and the implementation of a Voluntary Exit Scheme for staff.

As Comptroller and Auditor General, I place huge value on the skills and experience of NIAO staff and am committed to ensuring that our people have the necessary training and development to give of their best and develop their potential. I would like to express my gratitude to everyone in providing a high quality audit service in 2015-16 and my regard for the efforts and achievements of all participating in the volunteering activities arising from the Office's membership of Business in the Community Northern Ireland (BITCNI).

A handwritten signature in black ink that reads 'Kieran Donnelly'. The signature is fluid and cursive, written in a professional style.

Kieran Donnelly
Comptroller and Auditor General for Northern Ireland

24 June 2016

Purpose and activities of the NIAO

Our role

The Northern Ireland Audit Office (“the NIAO” or “the Office”) seeks to hold public bodies to account for the way they spend public money. We do this by providing objective information, advice and assurance on how public funds have been used and accounted for and encouraging best standards in financial management, good governance and propriety in the conduct of public business.

Our purpose is to promote better use of public money through independent professional scrutiny, underpinned by our commitment to integrity, equality, openness and innovation, to make a difference for the people of Northern Ireland.

Our independence

The head of the NIAO, the Comptroller and Auditor General, is an Officer of the Northern Ireland Assembly (“the Assembly”) and a Crown appointment made on the nomination of the Assembly. Under the Audit (Northern Ireland) Order 1987, the holder of the office is a Corporation Sole, and responsible for the appointment of NIAO staff who assist him in the delivery of his statutory functions. The Comptroller and Auditor General and the NIAO are totally independent of government.

Our accountability

The NIAO and the Audit Committee of the Assembly, which oversees NIAO performance, have agreed a Memorandum of Understanding on the governance and accountability of the Office. The Memorandum sets out:

- the values and standards of the NIAO in carrying out its work;
- the internal governance arrangements of the NIAO; and
- the commitments of the Comptroller and Auditor General and NIAO to the Assembly Audit Committee on the actions they will take to uphold transparency and manage public money effectively, and in doing so, provide confidence to the Assembly and wider public regarding the arrangements for the governance and accountability of the NIAO.

Our strategic aims

Each year the NIAO prepares a Corporate Plan (available at www.niauditoffice.gov.uk) covering the next three financial years. The plan sets out the Office's strategic aims and forward plans during this period, together with detail on how it proposes to deliver these aims, the resources that it requires to do so, and its key performance measures.

Underpinning our purpose of **promoting better use of public money**, we concentrated on three strategic aims where we could add value to the Northern Ireland Public Sector:

- encouraging and supporting best practice in financial management;
- promoting the proper conduct of public business; and
- promoting improvement in the efficiency and quality of services provided to the public.

Our work

Our audit remit covers both the central and local government sectors in Northern Ireland. The Comptroller and Auditor General is responsible for the external audit of central government bodies and reporting the results of his work to the Assembly. The audit of local government bodies is the responsibility of the Local Government Auditor, a member of NIAO staff designated by the Department for Communities¹, with the consent of the Comptroller and Auditor General. The results of this work are reported to the Department for Communities.

¹ Following departmental restructuring, responsibility for local government has passed from the former Department of the Environment to the new Department for Communities.

The five dimensions to our work are shown below:

Financial Audit	Forming an opinion on financial statements; assessing whether expenditure is regular and in accordance with the intentions of the Assembly when it granted the money; and providing assurance on the Accounting Officers' Governance Statement.
Public Reporting	Independently examining and reporting to the Assembly on whether public bodies spend taxpayers' money economically, efficiently and effectively. Audit, assessment and reporting on local councils' performance improvement responsibilities. Providing public bodies with constructive advice in the form of good practice reports across a range of areas.
Governance and Fraud Prevention and Detection	Helping public bodies improve their corporate governance, financial control and risk management arrangements, and assisting in the prevention and detection of fraud by conducting and reporting on data matching exercises.
Support to the Northern Ireland Assembly and the public	Working closely with the Public Accounts Committee on evidence sessions based on our reports; providing support to Departmental committees; and responding to enquiries from elected representatives and citizens.
Comptroller Function	Authorising the issue of public funds from the Consolidated Fund for Northern Ireland.

The gross expenditure and any associated income of each of the above elements are shown in Note 2 to the Office's Financial Statements.

Key issues and risks

This is a period of extensive change across government. The Northern Ireland public sector continues to face fiscal austerity, together with an increasing demand for public services. This creates real challenges in delivering the required level and quality of services. In parallel, it is undergoing a wide-ranging programme of reform, including restructuring of central and local government.

In times of such significant change, public audit has a major role to play in providing independent assurance and advice on the use of public funds, holding government to account and supporting and promoting improvement in the delivery of public services. Over this reporting period we have responded to the challenges in our external operating environment, and remained committed to providing the Assembly and those we audit with a high quality cost effective audit service to meet their expectations. Our achievements, delivered with reduced funding, are detailed in this report.

Like the rest of the public sector, the NIAO faces significant budgetary pressures. At the commencement of 2015-16 we projected a deficit of £300,000, our budget having reduced by five per cent compared with the previous year. To help manage finances this year and beyond, the Office implemented a Voluntary Exit Scheme (VES) closely based on that of the Northern Ireland Civil Service. This resulted in the departure of 14 permanent members of staff (12.8 Full Time Equivalent). While the scheme has brought about savings and a reduction in staff numbers, further transition to an optimal grade structure is required (rationalising the management structure and bolstering front-line resources). Accordingly, to prepare for the future and meet business needs, the Office is implementing a second Voluntary Exit Scheme, recommencing recruitment of trainee accountants and reintroducing its student placement scheme in 2016-17.

To enhance organisational performance within reducing resources and respond to opportunities and challenges in a rapidly changing public sector landscape, the Office has implemented a new business structure over the past year, which is designed to:

- improve the flexibility and agility of the organisation to balance workflow better, meet peaks in activity, and reduce reliance on temporary appointments;
- enhance knowledge and skills sharing;
- create a stronger client focus;
- increase opportunities for career development, as well as providing job enrichment and enhancing succession planning; and
- provide greater autonomy in decision-making.

Staff development is an important principle underpinning the new arrangements. It is through the skills, expertise and cumulative experience of staff that we are able to deliver against a challenging programme of audit work.

We are committed to providing an environment in which people are given the necessary training and development to help maintain and develop their skills, and to maximise personal potential in the achievement of organisational objectives. The Office has introduced a new performance management

system with effect from 1 January 2016 which has placed increasing emphasis on learning and development.

Restructuring has engaged the Office in the management of change, and associated issues relating to organisational culture and staff motivation. Feedback through staff surveys and day-to-day communications is important in monitoring engagement, the well-being of our staff and the working culture. Areas for further consideration have been highlighted, including leadership and management roles, responsibilities and accountabilities, a review of which will take place in 2016-17. Our overall focus will remain on creating the right working environment so our people can give their best in all that they do.

Performance summary

During 2015-16 we:

- Completed 223 annual financial audits across the public sector

- Published six Value for Money reports

- Published three General reports drawing on our financial audit work

- Published one Good Practice guide, "Managing Fraud Risk in a Changing Environment – A Good Practice Guide"

- Undertook two National Fraud Initiative (NFI) pilots in respect of Health and Social Care Personal Budgets and General Practitioner Registration Data

- Provided support to the Assembly in its scrutiny of the use of public money

- Dealt with 12 Member of the Legislative Assembly (MLA) queries and 39 issues raised by external whistleblowers

- Engaged with key stakeholders, including participating in a survey of MLAs and undertaking a survey of audited bodies

Performance Analysis

Our performance

Financial audit

Financial audit work undertaken by the Office comprises the audit of central and local government body accounts.

Number of Financial Audits	2015-16	2014-15
Central Government		
Accounts audited	155	161
Of which qualified	18	22
Local Government		
Accounts audited	68	57
Of which qualified	0	0

Central government

The Comptroller and Audit General has a statutory responsibility to audit the financial statements of all Northern Ireland departments, executive agencies and other central government bodies, including non-departmental public bodies, health and social care bodies and some public sector companies, and to report the results to the Assembly.

The purpose of our financial audit is to provide independent assurance that the accounts of an audited body give a true and fair view of its financial position, have been prepared in accordance with the relevant accounting requirements and that the transactions underlying the financial statements are in line with the intentions of the Assembly and other authorities.

In 2015-16 we certified 155 central government accounts (2014-15: 161).

If at the end of an audit we consider that the accounts do not present a true and fair view, that expenditure and income have not been incurred in line with Assembly intentions, or conform to the authorities which govern them, then the Comptroller and Auditor General will qualify his opinions on the accounts. Eighteen central government accounts were qualified in 2015-16 (2014-15: 22). In these cases, and in other cases where there are significant issues arising, we make a report to the Assembly which may be considered by the Public Accounts Committee (PAC).

We inform the organisations we audit of the issues we find during our work, giving our independent view on areas where the audited body could improve its governance, controls and financial management. We liaise with management to obtain their response to the issues identified.

During 2015-16 we continued to work with the Office of the Comptroller and Auditor General in Dublin on the shared audit and certification of North South bodies. We also continued to have close working arrangements with the National Audit Office for the accounts we audit on its behalf.

Local government

A senior member of NIAO staff, Louise Mason, is designated by the Department for Communities, with the consent of the Comptroller and Audit General, as the Local Government Auditor. The Local Government Auditor, assisted by NIAO staff, is responsible for the audit of local government bodies. We completed the audits of 68 local government accounts (2014-15: 57). The increase in the number of audits relates to the 11 new Councils in the shadow period. None of the opinions on the local government accounts certified in 2015-16 were qualified (2014-15: nil).

For the audit of central government bodies there is an explicit requirement for the auditor to provide an additional audit opinion on whether, in all material respects, expenditure and income have been applied for the purposes intended by the Assembly and conform to the authorities which govern them (regularity). There is no similar requirement for the audit of local government bodies. Of the 18 central government accounts qualified in 2015-16, 15 were qualified solely on the basis of the regularity opinion.

Public reporting

The Office produces a wide range of public reports each year reflecting its broad audit remit.

Number of Public Reports	2015-16	2014-15
Value for Money	6	10
General	3	3
Good Practice	1	2
Total	10	15

The reduction in the number of VFM reports published in 2015-16 compared with 2014-15 was due in part to the loss of experienced staff and reflects the need to rebalance resources across the Office. In 2016-17, we plan to produce nine VFM reports.

Between April 2015 and March 2016 we published the following reports, copies of which can be obtained from our website at www.niauditoffice.gov.uk:

Value for Money

DRD: The Effectiveness of Public Transport in Northern Ireland

Department of Education: Sustainability of Schools

Northern Ireland Events Company

Invest to Save funding in Northern Ireland

The Governance of Land and Property in the Northern Ireland Housing Executive

Continuous Improvement Arrangements in Policing 2016

General

General Report on the Health and Social Care Sector 2012-13 and 2013-14

Local Government Audit Report 2015

Financial Auditing & Reporting 2015

Good Practice

Managing Fraud Risk in a Changing Environment – A Good Practice Guide

The main component of public reporting is our examinations into the economy, efficiency and effectiveness (value for money) with which public bodies use their resources. Our value for money (VFM) work is informed by a careful analysis of the audit field. We select a balanced programme of studies which aims to:

- provide the Assembly with independent information and advice about how economically, efficiently and effectively departments, agencies and other public bodies have used their resources;
- encourage audited bodies to improve their performance in achieving value for money and implementing policy; and
- identify good practice and suggest ways in which public services could be improved.

Our value for money studies focus on specific areas of government expenditure, and seek to make a judgement on how well resources have been managed and services delivered.

The six reports covered a range of topics across the Northern Ireland public sector in areas such as education, transport and land deals. In these reports, we sought to measure performance; identify the factors underlying that performance; and offer practical recommendations aimed at adding value.

Specific examples² of our VFM reports include the following:

Northern Ireland Events Company

We reported on the failures of the Northern Ireland Events Company (NIEC), a company incorporated in 1997 with a remit to support major events in Northern Ireland. Its main source of funding was an annual budget provided by central government. We found that there had been a complete breakdown of financial control which resulted in the accumulation of a £1.5 million deficit. Our report concluded that the then NIEC Chief Executive and Accounting Officer had been involved in covering up these escalating financial losses and had a number of conflicts of interest which were poorly handled. We also found that the NIEC Board had failed to provide adequate oversight and that there had been a number of weaknesses in the Department of Culture, Arts and Leisure's oversight.

² Examples of audit work conducted in 2015-16 and earlier years refer to the Northern Ireland Departments as they were at the time the work was undertaken. In May 2016 Northern Ireland Departments were restructured. Details of the new Departments and the functions undertaken by them can be found at <https://www.nidirect.gov.uk/articles/changes-government-departments>

The Invest to Save funding in Northern Ireland

A total of £311 million Invest to Save funding was allocated to 31 projects across Government departments. As this money was ring-fenced, it should not have been used for any other purpose. However, our report found that £52 million of this funding was reallocated by the Department of Health, Social Services and Public Safety to other high priority areas within the department.

The primary focus of the funding was to generate financial savings and we found that, although the information provided to NIAO was inconsistent, departments have estimated cumulative savings in excess of £150 million from Invest to Save projects. However, almost a third of projects funded did not anticipate or quantify financial savings. Furthermore, our report also noted that the funding was not used sufficiently to encourage risk-taking and innovation

The Effectiveness of Public Transport in Northern Ireland

This report assessed the performance, funding and structure of public transport against the former Department for Regional Development's initiatives and targets over the period 2002 - 2014. A substantial investment of £1.1 billion, prompted by the Regional Transport Strategy (2002), has vastly improved the public transport infrastructure and has transformed rail travel with passenger journeys doubling to 13.2 million. In contrast, bus passenger journeys have increased by just 1.5 per cent. Our report concluded that, despite a strategic commitment that public transport should service a higher proportion of journeys by providing an alternative to the private car, there has been no overall modal shift from private to public transport.

We also published a good practice guide. "Managing Fraud Risk in a Changing Environment: A Good Practice Guide" highlighted emerging fraud risks and reinforced the need for fraud awareness in a dramatically changing public sector environment. The guide was launched through the auspices of the Chief Executives' Forum³ and will continue to be promoted through our audit work.

A general report drawn from our financial audit work was published for our overall findings in each of the sectors we audit – central government, local government and health and social care. This enables us to identify specific themes arising and lessons to be learnt from our annual audits and importantly helps promote accountability. In 2015-16, the PAC held a session on the Health and Social Care Sector Report.

³ The Chief Executives' Forum is the association of chief executive officers of civil and wider public service bodies in Northern Ireland

Governance and fraud prevention and detection

The Office works closely with audited bodies to promote good practice in governance arrangements and help combat fraud. It is our view that good governance structures which are well embedded in organisations are a key attribute to achieving corporate goals and are crucial in times of financial constraint. During this financial year we attended the audit committees of all our audited bodies, providing support, advice and guidance to both non-executives and senior staff. We continue to work with bodies to further enhance their governance arrangements.

We also continued to be involved in providing training to both staff and non-executives through programmes developed by the Chief Executives' Forum. These programmes focussed on accountability and governance and were aimed at a number of different groups including Accounting Officers, Senior Managers, Board Members and Audit Committee Members.

The Office continues to play an important role in supporting public sector bodies in their fight against fraud. Ongoing budgetary pressures mean it is of particular importance that public bodies use every means at their disposal to prevent and detect misuse of public funds in order to maximise frontline resources. In our promotion of better use of public money, the Office maintains a small counter fraud unit which reviews and monitors the arrangements in departments for the prevention, detection, investigation and reporting of fraud.

A key focus in recent years has been the prevention and detection of fraud and error through data matching. Data matching involves comparing pieces of data or information held by one body against other records held by the same or another body, in order to highlight potentially fraudulent claims and payments.

Since 2008 we have participated in the National Fraud Initiative (NFI), a UK wide data matching initiative to combat fraud and error. In the four exercises to date in Northern Ireland, almost £33 million of fraud and error has been identified.

NFI Outcomes in Northern Ireland	1 April 2008 to 31 March 2010	1 April 2010 to 31 March 2012	1 April 2012 to 31 March 2014	1 April 2014 to 31 March 2016	Total to date
	£'000	£'000	£'000	£'000	
Total Outcome	3,255	20,782	5,535	3,113	32,685

Our report on the fourth NFI exercise in Northern Ireland, covering the period 1 April 2014 to 31 March 2016, will be published in July 2016. We encourage public sector bodies to make the NFI a key part of their counter fraud strategies and continue to explore ways of developing the NFI further through the inclusion of additional public sector bodies and new data matches. Three new organisations participated in the fourth exercise, while in 2015-16 we were involved in two pilot exercises: Health and Social Care Personal Budgets and GP Registration Data.

Support to the Northern Ireland Assembly and the public

We provide independent support to the Assembly to enable it to hold the Executive to account for its financial management and the value for money it provides to the taxpayer for the public funds it spends. Our main engagement is through the support we provide to the PAC.

We present our value for money reports to the Assembly and the majority of these are considered by PAC at hearings in which it takes evidence from the senior departmental officials involved. During 2015-16, PAC held sessions on five of our VFM reports, in addition to a session on one of our financial audit reports, as follows:

Value for Money

The Effectiveness of Public Transport in Northern Ireland

Invest to Save Funding in Northern Ireland

The Governance of Land and Property in the Northern Ireland Housing Executive

Sustainability of Schools

The Northern Ireland Events Company

General

General Report on the Health and Social Care Sector 2012-13 and 2013-14

Following consideration of the evidence, PAC publishes its own report and recommendations to the Assembly. The Executive is then required to respond to these recommendations, specifying the action the audited body intends to take. We monitor the action taken and may revisit an issue where we consider that insufficient progress has been made.

We also pursue concerns raised with us by elected representatives or members of the public. In 2015-16, MLAs raised 12 separate concerns, all of which we have followed up (2014-15: 22 cases). Four concerns raised in 2015-16 remain under investigation.

MLA queries

Category of Concern	2015-16	2014-15
Non-entitlement to/misuse of public funds	4	9
Procurement/contracts	3	4
Planning	–	1
Governance	3	8
Efficiencies	2	–
Total Cases	12	22

The Comptroller and Auditor General and the Local Government Auditor are prescribed persons under public interest disclosure legislation. Part of the Office’s counter fraud role is considering public interest concerns raised by, among others, public sector employees, contractors and the wider public (collectively referred to as whistleblowers).

In 2015-16, 39 disclosures about the use of public money were received from whistleblowers (2014-15: 47 cases). Twenty six of the 39 disclosures have been closed. Disclosures from whistleblowers are encouraged, dealt with professionally and treated in confidence, as appropriate.

Whistleblowers

Category of Concern	2015-16	2014-15
Grant Related	–	1
Non-entitlement to/misuse of public funds	4	7
Procurement / Contracts	8	14
Conflict of interest	3	1
Abuse of Expenses / Travel & Subsistence	–	3
Failure to follow proper procedures	9	2
Planning issues	–	4
Governance issues	7	5
Other	6	10
No remit	2	–
Total Cases	39	47

Of the 39 disclosures, 12 related to our local government remit, three of which were received from Councillors. In 2014-15, 21 disclosures related to local government, three of which were received from Councillors.

Stakeholder engagement

In maximising efficiencies and providing value for money, we engage with other audit agencies and key stakeholders, including the Assembly and the bodies we audit. It is important that we understand their issues and perspectives, and recognise that insights come from time spent on site with our stakeholders.

During 2015-16 we took part, for a second time, in an independent survey of MLAs to gauge their understanding and appreciation of the work of NIAO. The responses showed that 90 per cent of MLAs surveyed were familiar with the work of the Office. Fifty three per cent of MLAs had a favourable opinion or impression of the Office. We plan to participate in induction training for the new mandate of the Assembly to promote awareness of the role of NIAO.

We also formally surveyed a sample of our audited bodies, involving departments and larger arms length bodies. Feedback was largely positive and encouraging in terms of the quality of the audits which we delivered.

In September 2015 the Office joined Twitter (@NIAuditOffice #publicscrutiny #audit). Our tweets cover new reports, PAC activity and miscellaneous NIAO talks and presentations.

Impacts

We have a responsibility to provide value for money on the services we provide to our stakeholders. One way in which we measure our success is by identifying the quantifiable financial impact of our work. In doing so, we recognise that our measurement of impact will only present a partial picture, as it is hard to quantify the deterrent effect of public audit in contributing to improved public services.

During 2015-16, quantified financial impacts of £14.3 million were achieved as a result of work of the Office and PAC (2014-15: £26.6 million). This figure has been independently validated by the Office's external auditor and represents 1.7 times the net resource outturn of the Office (2014-15: 3.4 times). The extent of savings achieved can fluctuate from year to year and is largely dependent on the nature of the studies undertaken in the value for money audit programme.

The following examples demonstrate the financial impact and/or the wider qualitative impacts such as service improvements, better programme and resource management or better outcomes for users of public services achieved during 2015-16.

Agri-Food and Biosciences Institute

In our 2013 report, we recommended that the full costs of activities delivered by the Agri-Food and Biosciences Institute's (AFBI) divisions, calculated by the strategic cost model, be used as a baseline to assess the scope for setting revised efficiency targets. PAC recommended that AFBI focus on identifying and implementing efficiency savings, addressing the high cost of its estate and benchmark other corporate costs. In July 2014 AFBI set its baseline and put forward targets for efficiency savings of £5.52 million. The outturn against this target is expected to be £6.48 million, of which NIAO have claimed a £3.24 million impact (a 50 per cent share) to reflect the additional impetus that our report and the PAC's work provided to the actions taken by AFBI.

General Report on the Health and Social Care Sector 2012-13 and 2013-14)

Our General Report on the Health and Social Care Sector (2012-13 and 2013-14), published in May 2015, was considered by the PAC in September 2015. In the subsequent Committee report there were 13 wide ranging recommendations covering areas as diverse as budget processes, recruitment of medical staff, Transforming Your Care and waiting times. Each of these recommendations was accepted by the Department of Health. The department has since introduced a series of major initiatives such as, taking forward a regional tendering process for the international recruitment of medical doctors; clinical networking to ensure information-sharing and problem-solving is undertaken across Health and Social Care Trust boundaries; identifying and addressing the main reasons for delays in meeting waiting time targets for cancer treatment; and taking steps to ensure that health service patients are not being disadvantaged as a result of the close intertwining of public and private health care.

The Sustainability of Schools

NIAO's report on the Sustainability of Schools (June 2015) noted that there has been overall improvement in schools performance, and school enrolments and the number of schools have reduced since 2006. At the time of publication it was noted that there were 71,000 surplus school places (20 per cent of capacity), a reduction of 12,000 since 2009. However, while this included pupils with a Statement of Education Need in mainstream schools and others who are treated as supernumerary (almost 10,500) it was still significantly higher than the 10 per cent recommended in the Bain Review. In response, the Department of Education accepted all the NIAO's recommendations. These included an agreement to review its calculation of school capacity and surplus places and do more to address the over provision of school places at primary school level in particular.

Primary Care Prescribing

Our report on Primary Care Prescribing shows that, over recent years, GPs have secured savings by increasing the proportion of generic medicines they prescribe rather than opting for the branded versions of drugs. However, an examination of three therapeutic areas showed that by prescribing more expensive generic drugs prescribing costs were £5.1 million higher in 2013 than they may otherwise have been. In addition, had one drug in particular been prescribed at the lower levels experienced elsewhere in the UK, £9.7 million would have been released in 2013. The Department of Health recognises this challenge and has engaged with Health and Social Care so that it continues to review all therapeutic areas and audits prescribing patterns, with the anticipation that this will generate further efficiencies.

Key performance measures

In addition to measuring the financial impact of our audit work, we have a number of key performance measures to assist in demonstrating our productivity, quality of work and achievements in reducing costs. Performance achieved in 2015-16 against these key measures is as follows:

Ensuring ongoing efficiency in our work

Target	Endeavour to optimise and prioritise the resources we have been allocated to deliver our audit functions as far as possible and provide a quality audit service to the Assembly.
Performance achieved in 2015-16	<p>In the face of reducing resources, both staff and financial, the Office sought to use resources available flexibly and in a prioritised manner to deliver our audit functions and provide a quality audit service to the Assembly.</p> <p>Evidence that we have continued to use our resources efficiently and effectively is shown by our delivery of a quality programme of public reports for the PAC and the certification of 223 accounts in 2015-16.</p> <p>Furthermore, the Office absorbed the initial work on the performance improvement audit of local councils. We also undertook a greater number of local government financial audits this year arising out of local government reform - a total of 68 local government accounts, including the 11 new shadow councils.</p>

Timeliness of our outputs

Target	Financial Audit: at least 70 per cent of accounts audited within seven months of their year end.
Performance achieved in 2015-16	80 per cent.

Target	Financial Audit: at least 87 per cent of accounts audited within twelve months of their year end.
Performance achieved in 2015-16	96 per cent.

Target	Public Reports: Over the period of the Corporate Plan 2015-16 to 2017-18, produce an average of at least 20 public reports per year.
Performance achieved in 2015-16	<p>10.</p> <p>As part of our new role in auditing local councils' performance improvement plans under the Local Government Act (Northern Ireland) 2014, we anticipated that we would produce 11 reports each year assessing councils' performance improvement. However, as the legislation was not fully implemented in 2015-16, NIAO was not required to produce these reports and our output of public reports for the year was correspondingly reduced.</p> <p>As set out on page 13, six VFM reports were produced in 2015-16. Whilst this was lower than anticipated, it did not adversely impact our service to the PAC, and we are on course to deliver nine reports in 2016-17.</p>

Our work is of the highest quality

Target

Financial Audit:

Annual confirmation of compliance with our audit methodology and underlying professional standards.

Performance achieved in 2015-16

We monitor our quality control procedures to ensure our continued compliance with the International Standard on Quality Control (ISQC 1). Our procedures include performing 'cold reviews' of our financial audit work.

In the period, eight accounts were reviewed by teams independent of the audit team. Six of the reviews were conducted by teams from the other UK public audit agencies.

Audit opinions were found to be sound for seven of the eight audits reviewed, with some areas for improvement identified. For the remaining audit, which was contracted out to a private firm, the audit opinion was found to be unsupported at the time of certification. Subsequently the firm undertook additional audit procedures to provide the necessary assurance to support an unqualified opinion. Going forward we will work closely with the firm to ensure the quality of its work is to the professional standard we require.

Target

VFM work:

We subject our VFM reports to independent review by a panel of experts who rate the reports on a scale of one to five. We aim to ensure that our VFM reports maintain an average quality review score of at least three.

Performance achieved in 2015-16

3.6

We also subject a sample of our reports to peer review by our colleagues in the Wales Audit Office, Audit Scotland and the National Audit Office. This feedback supports continual improvement of our public reporting.

Resource Accounts 2015-16

Schedule 2 of the Audit (Northern Ireland) Order 1987 requires the NIAO to prepare resource accounts. Details of the Order can be found at www.legislation.gov.uk.

The financial statements on pages 74 to 91 have been prepared by the Office on a resource basis in accordance with the 2015-16 Government Financial Reporting Manual (FReM) issued by the Department of Finance (formerly the Department of Finance and Personnel).

NIAO Estimate

The Audit (Northern Ireland) Order 1987 requires the Comptroller and Auditor General to prepare a Supply Estimate each financial year. Supply Estimates are the means by which authority is sought from the Assembly for spending.

As stated on page 6, the Office produces a Corporate Plan on an annual basis which sets out developments in the work programme for a three year rolling period and the related resource requirements. This plan is then presented to the Assembly Audit Committee, established under Section 66 of the Northern Ireland Act 1998. Once the Assembly Audit Committee has examined the Corporate Plan and endorsed the resource bid, the Office prepares its Estimate. The 2015-16 Estimate was agreed by the Assembly Audit Committee in April 2015 and included in the Budget Act which was enacted in July 2015.

Resources

The resources used by the Office in 2015-16 are set out in the following table:

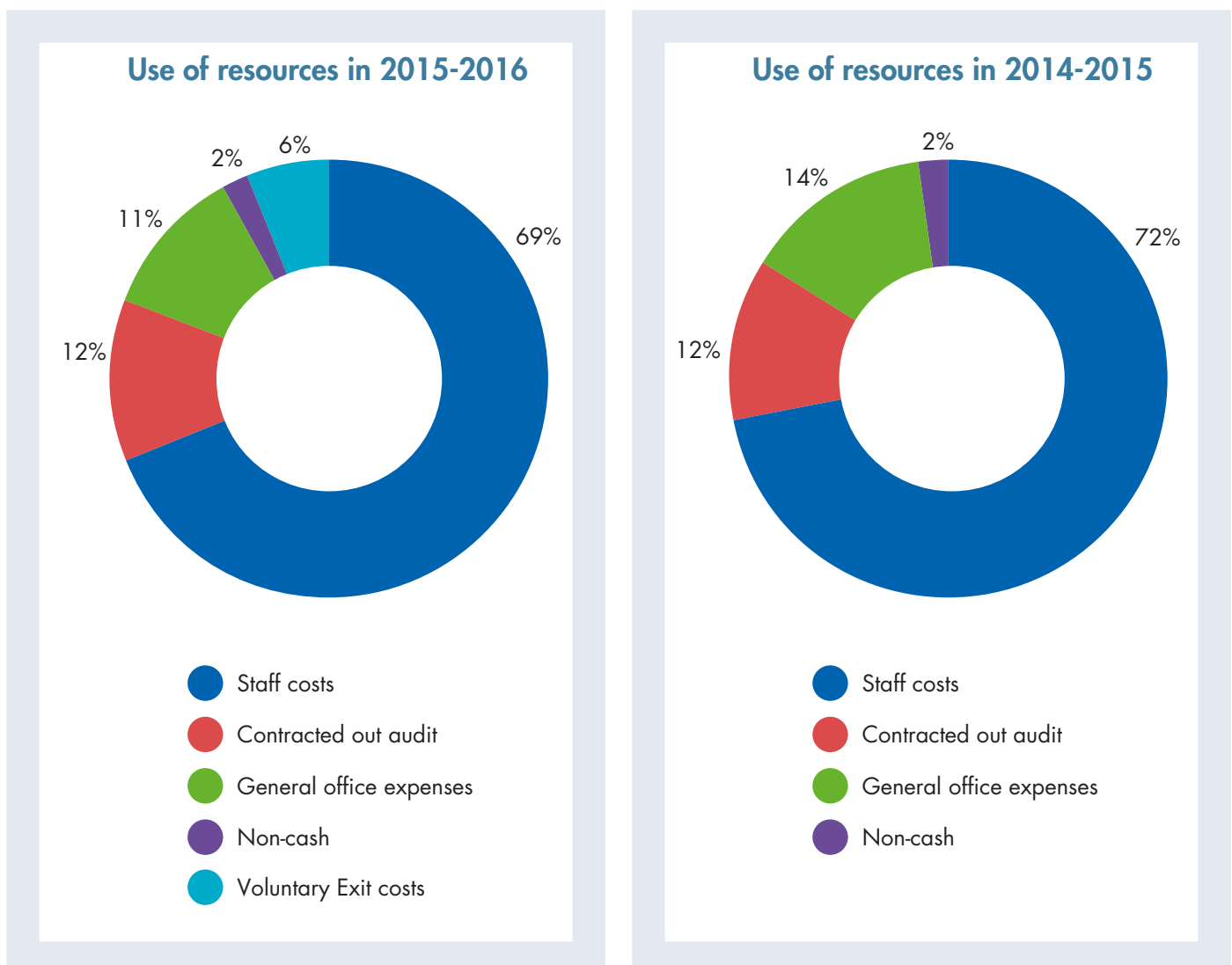
	Estimate	Outturn	Saving/(Excess)	
	£'000	£'000	£'000	%
Gross Resource Requirement	11,183	10,635	548	4.9
Income	2,398	2,398	–	–
Net Resource Requirement (NRO)	8,785	8,237	548	6.2
Voluntary Exit Scheme (VES)	997	677	320	–
NRO excluding VES	7,788	7,560	228	2.9
Capital	40	36	4	10.0

Fifty eight per cent of the variance between the Estimate and the Outturn Net Resource Requirement was in respect of the Voluntary Exit Scheme which was ring-fenced funding. The saving of £320,000 equates to 3.6 per cent of the Estimate. The final position on voluntary exits was not determined until the final quarter of 2015-16 and while the number of staff departing (14) was in line with plans, the grade mix comprised fewer senior and more junior staff than projected.

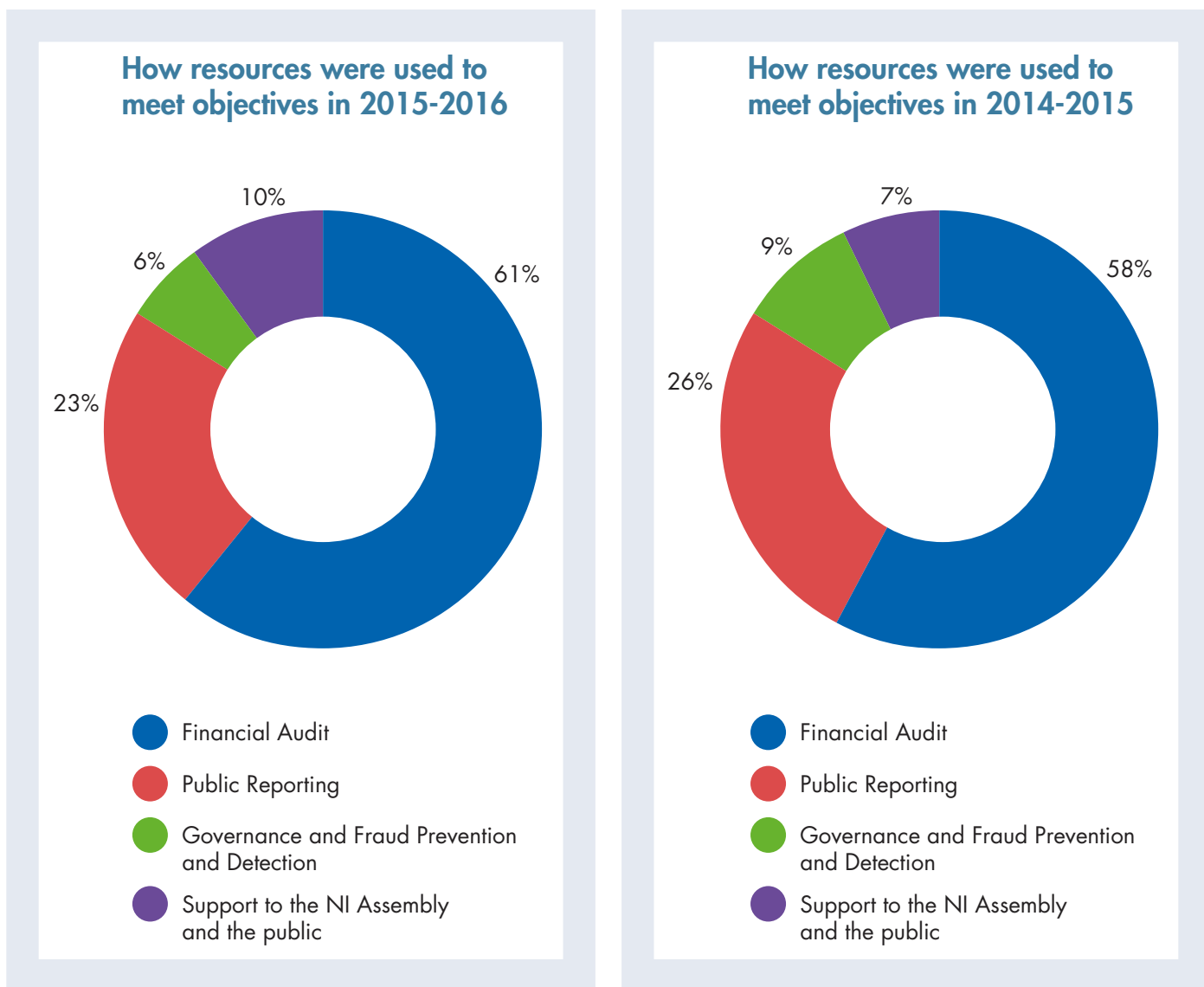
In addition, savings arose from:

- a reduction in salaries arising from a reduced liability for employee benefits (i.e. untaken annual leave) compared with the forecast. We will continue to strive to improve the accuracy of our projection of this figure; and
- a combination of minor reductions, including less expenditure than forecast on outsourcing (consultancy and contracted out audit work), IT and other overhead costs.

Staff costs continue to be the largest area of expenditure for the Office:



In 2015-16, 61 per cent of our resources were used on financial audit work, while 23 per cent were used on public reporting work.



The cost for administering the Comptroller Function was £16,000, as shown at Note 2 to the Resource Accounts.

Income includes:

- fees received from:
 - some central government bodies, and North South bodies in respect of the audit of their accounts;

- the National Audit Office for audits we carry out on its behalf;
- local government bodies for the audit of their accounts; and
- central and local government bodies in respect of the National Fraud Initiative;
- recoupment of salary and associated costs for seconded staff.

Each element of income, and the costs associated with it, is shown on page 65 of the Accountability Report.

Any income in excess of the Estimate must be surrendered as Consolidated Fund Extra Receipts. In 2015-16, excess income of £107,000 was earned as a result of earlier than anticipated completion of chargeable audit work and additional income in respect of European Agricultural Fund work.

Capital expenditure in relation to our IT requirements included a new network line and a limited amount of hardware to enhance operational efficiency and effectiveness. We also upgraded our Building Management System which controls the Office's heating.

Resources required in the future

The Corporate Plan covering the period 2016-17 to 2018-19 sets out the Office's strategic aims and how these will be delivered. The resources required by the Office to implement the Plan in 2016-17 were considered by the Assembly Audit Committee in March 2016. The Assembly Audit Committee and the Comptroller and Auditor General agreed the Estimate provision shown in the table below.

	2016-17 £'000
Gross Resource Requirement	10,613
Income	2,607
Net Resource Requirement (NRR)	8,006
Voluntary Exit Scheme (VES)	565
NRR excluding VES	7,441
Capital	40

The estimated Net Resource Requirement in 2016-17 represents a reduction of 8.9 per cent in cash terms compared with our Estimate in 2015-16 and a 2.8 per cent decrease compared with the 2015-16 outturn.

The Net Resource Requirement provided in the 2015-16 Estimate included £997,000 to fund a Voluntary Exit Scheme (VES) which resulted in 14 members of staff (Full Time Equivalent: 12.8) departing in that year. The full impact of pay bill savings resulting from these exits will materialise in 2016-17. In addition, while the Office has secured funding to run a second VES in 2016-17, the amount allocated is less than that for the 2015-16, at £565,000.

Excluding VES funding, the 2016-17 budget is 4.5 per cent less than that for 2015-16 shown on page 24.

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. This table is given below:

	2015-16 £'000	2014-15 £'000
Net Resource Outturn	8,237	7,739
Consolidated Fund Extra Receipts	(108)	(31)
Non-supply expenditure	196	194
Net Operating Cost	8,325	7,902
Consolidated Fund Extra Receipts	1	-
Inter-departmental notional charge	(2)	(2)
Resource Budget Outturn of which	8,324	7,900
Department Expenditure Limits (DEL)	8,387	7,977
Annually Managed Expenditure (AME)	(63)	(77)

Payment of Suppliers

The 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 the goods and services, whichever is later.

During 2015-16, the Office paid 99.1 per cent of bills (2014-15: 99.8 per cent) within this standard.

In addition to this, the government has said that, wherever possible, public sector bodies should seek to pay suppliers within 10 working days of receipt of the invoice. In 2015-16, we met this standard for 98.9 per cent of invoices received (2014-15: 99.5 per cent).

Future development of the business

Our Corporate Plan for the three year period commencing 1 April 2016, endorsed by the Assembly Audit Committee, sets out two key strategic priorities:

- supporting change, innovation and improvement in the Public Sector; and
- transforming our business.

To achieve these aims and continue to deliver a comprehensive programme of work against a backdrop of financial pressures and reduced resources, we plan to:

- further embed and evolve internal structural changes, including working in a more integrated and joined up way, to bring together our skills and expertise on our principal areas of work;
- approach learning and development with a renewed focus and vigour to ensure staff have the required skills and knowledge, and the Office is in a position to maximise added value for the Assembly and those it audits;
- enhance team-based working to widen, deepen and strengthen our expertise on particular areas of work;
- sharpen the scope of our reports to focus more clearly on material and key issues of public concern and thereby maximise our added value;
- diversify our product range - traditionally, the Office's reports have consisted of major value for money studies and certified financial statements. We will increasingly look to diversify this product range, to include good practice guides, presentations and greater use of internet-based applications;
- shorten clearance times - we are obligated to clear the factual accuracy of our reports with audited bodies. However we have experienced considerable difficulty over recent years in clearing our reports quickly. This has significantly added to the time taken to produce our reports and bring them

to the PAC for its consideration. To address this, in 2015-16 we agreed a clearance protocol with the Department of Finance which was issued to all Accounting Officers. We will seek to build on this clearance protocol to reduce the time taken to clear our reports with audited bodies; and

- draw on the knowledge gleaned from our engagement with stakeholders - we will use the feedback from our wide spectrum of stakeholders (for example, elected representatives, audited bodies, representative organisations) to ensure we focus on the right topics.

Sustainability, environmental, social and community matters

We are committed to sustainable practice and minimising our impact on the environment. We meet these commitments by disposing of waste carefully, recycling appropriate materials, and by conserving the energy we consume. For example, redundant electronic and electrical equipment is passed to an external contractor who expunges all data to a standard set by government and then recycles the hardware; redundant furniture is disposed of by way of re-use or environmental destruction; and electricity consumption has been reduced by replacing halogen lighting with lower energy alternatives and air conditioning units with more energy efficient units. Our reprographic equipment will only print on the input of a personal code, reducing the amount of unnecessary printing and thus paper consumption. In addition, we have reduced the number of printed copies of each public report published, issuing reports electronically where appropriate.

The Office's procurement guidance requires procurement decisions to have regard to equality of opportunity and sustainable development. Much of what we procure, including services for the upkeep of our premises, is through Northern Ireland Civil Service (NICS) wide contracts. These contracts, established locally by the Department of Finance's Central Procurement Directorate, are committed to delivering on the NICS' sustainability, environmental, social and community objectives. For example, contractors are encouraged to work with small suppliers (i.e. fewer than 50 employees); micro suppliers (i.e. fewer than 10 employees) or Social Economy Enterprises throughout their supply chains. Payment to subcontractors should be made within 30 days of receipt of a valid invoice.

In seeking to reduce its environmental footprint, the NIAO introduced travel initiatives aimed at encouraging staff to avail of more sustainable modes of transport to travel to and from work:

- Translink's TaxSmart Scheme is an employer salary sacrifice scheme where the NIAO purchases travel passes for employees and the employee repays the NIAO from their gross salary, while Translink's Annual Commuter Travelcard involves an interest free loan to employees to allow them to purchase travelcards, with repayments made out of net salary.
- The Northern Ireland Civil Service's Cycle to Work scheme was implemented in 2013-14 and to date 19 NIAO staff have participated.

Our Accounts Payable Unit continues to issue electronic invoices and remittances to suppliers and staff, reducing paper and printing consumption and associated postal charges. The introduction of iPads and tablets has reduced consumption further, by replacing papers used at various internal and external meetings.

During the year, the Office joined Business in the Community Northern Ireland (BITCNI), a membership organisation for companies that are committed to doing business responsibly and working together on societal issues where they can make a real difference. Twenty four members of staff volunteered to improve a National Trust woodland area, four have participated in the Time to Read programme at a local school and three volunteered as business advisors as part of the eye4education programme. Staff have also nominated a Charity of the Year and seven have taken part in the '1b for £' challenge to raise money for a worthwhile cause.



Kieran Donnelly
Comptroller and Auditor General for Northern Ireland

24 June 2016

Accountability Report

Corporate Governance Report

Directors' Report

The Governance Statement on pages 39 to 47 sets out the NIAO's governance, risk management and control arrangements. The main components of the governance arrangements in 2015-16 are stated below.

NIAO Executive Team

Subject to the Comptroller and Auditor General's statutory role as corporation sole, the Executive Team is the principal mechanism for decision making in the NIAO. It comprises the Comptroller and Auditor General and three Assistant Auditors General:

Kieran Donnelly

Comptroller and Auditor General

Eddie Bradley

Assistant Auditor General

Eddie Bradley, together with Louise Mason, has responsibility for the oversight, quality and delivery of the Comptroller and Auditor General's audit programme. He performs the role of Head of Public Reporting.

Louise Mason

Assistant Auditor General and Local Government Auditor

Louise Mason, together with Eddie Bradley, has responsibility for the oversight, quality and delivery of the Comptroller and Auditor General's audit programme. She performs the role of Head of Financial Audit and is designated by the Department for Communities, with the consent of the Comptroller and Auditor General, as the Local Government Auditor.

Janet Sides

Assistant Auditor General

Janet Sides is responsible for the central programme of work which includes finance, human resources, premises, communications, compliance and ethics, and information and IT management.

NIAO Audit Committee

The NIAO Audit Committee supports the Comptroller and Auditor General as Accounting Officer in his responsibility for issues of risk, control and governance. It is composed solely of non-executives. In 2015-16 its membership was as follows:

Mary Halton

Mary Halton is the Managing Director of Align Consulting Ltd and previously served on the Governing Council of Chartered Accountants Ireland where she was also a member of its Audit & Risk Committee. She stood down as chairperson of the NIAO Audit Committee and member of the Comptroller and Auditor General's Advisory Group in June 2015 at the end of an agreed extension to her term.

Diane McGiffen

Diane McGiffen is Chief Operating Officer in Audit Scotland. She is responsible for the internal operations and business performance of Audit Scotland and chairs its Management Team. She stood down from the NIAO Audit Committee in June 2015 at the end of her term.

Áine Gallagher

Áine Gallagher, chairperson of the Audit Committee since June 2015, is the Director of Finance and Corporate Services for the Northern Ireland Hospice and previously worked as Director of Operations for Culture Company 2013 Ltd; as a member of the Corporate Finance Appraisal and Advisory Division in Invest NI; and with PricewaterhouseCoopers, where she trained as a Chartered Accountant and worked for 10 years between the audit and advisory departments. She is also a member of the Comptroller and Auditor General's Advisory Group.

Paul Douglas

Paul Douglas has 28 years' experience in a large public sector organisation, the Police Service of Northern Ireland, with 15 years as a senior manager, working closely with stakeholders to develop key strategic goals to reduce crime and build safer communities. He was accountable for all aspects of performance within his area and had responsibility for human resources and financial management. Between 2008 and 2010, he managed the strategic change process as the organisation moved from four districts to one. He currently serves as a Non Executive Director with the Safeguarding Board of Northern Ireland. Paul is chair of the Comptroller and Auditor General's Advisory Group.

Gillian Body

Gillian Body was appointed as a non-executive in September 2015. She has 35 years' experience in public audit. Currently Assistant Auditor General with the Wales Audit Office, she has responsibility for the full range of value for money work undertaken by that Office across the Welsh public sector. She is CIPFA qualified and spent her early career working for the National Audit Office. She has also had secondments with the Office of the Comptroller and Auditor General in Dublin and with the Australian National Audit Office in Canberra. From February 2010, she was temporarily appointed as the Auditor General for Wales, until the current Auditor General took up the post in October 2010.

Pat Cumiskey

Pat Cumiskey was appointed as a non-executive in November 2015. He has over 40 years experience in a number of audit and senior financial management positions in the public sector, including 25 years with Banbridge District Council. He was promoted to Acting Chief Executive in 2014 to lead the council through its final year before transition to Armagh City, Banbridge and Craigavon Borough Council. He was instrumental in building and sustaining a strong people-orientated approach to reorganisation. He currently serves as Lay-member to the Northern Ireland Valuation Tribunal. Pat is also a member of the Comptroller and Auditor General’s Advisory Group.

As set out in the Memorandum of Understanding agreed between the NIAO and the Audit Committee of the Assembly, each member is appointed for a three year period, which may be extended for a maximum of a further three years by the Comptroller and Auditor General with the endorsement of the Audit Committee. The same periods apply to membership of the Advisory Group.

Comptroller and Auditor General’s Advisory Group

Providing objective and impartial advice to the Comptroller and Auditor General, the Group’s membership in 2015-16 was as follows

Executives	Non-Executives
Kieran Donnelly	Mary Halton – April to June 2015
Eddie Bradley	Áine Gallagher
Louise Mason	Paul Douglas
Janet Sides	Pat Cumiskey – November 2015 to present

No significant interests are currently held by the NIAO Audit Committee or Advisory Group members which may conflict with their responsibilities.

Auditor of the NIAO

The Department of Finance appointed Baker Tilly Mooney Moore as the external auditor of the NIAO for a three year term commencing with the audit of the 2013-14 accounts, with the option to extend for a further two years, on a year by year basis.

In addition to its work to form an opinion on the financial statements, Baker Tilly Mooney Moore reviews the NIAO’s statement of financial impact which is reported on page 19. Details of the cost of the work done by the external auditor are disclosed in Note 4 to the Accounts.

Complaints

The Office has a complaints process in place to ensure that complaints from both clients and the public are dealt with in a timely, open and fair way, in line with public sector good practice. The process has three stages, the details of which can be found on our website at www.niauditoffice.gov.uk/index/contact_us/complaints_page.htm. If a complainant remains dissatisfied following the outcome of these three stages, they may refer the matter to the Northern Ireland Public Services Ombudsman's Office in accordance with Schedule 3 to the Northern Ireland Public Services Ombudsman Act (Northern Ireland) 2016.

In the 2015-16 year we received one external complaint. The Office discussed the issue with the complainant who indicated that they were content and did not wish to pursue the matter any further.

Further information on the monitoring of complaints can be requested from:

Information Manager
Northern Ireland Audit Office
106 University Street
Belfast
BT7 1EU
028 9025 1068

Health and Safety

The Office has a health and safety policy which is made available to all staff. A member of senior management chairs the Office's Health and Safety Committee, which comprises staff trained in health and safety and representatives nominated by Trade Unions.

No incidents were recorded during 2015-16 and no report to the Health and Safety Executive for Northern Ireland under the reporting of injuries, diseases and dangerous occurrences regulations was required.

The Office works closely with the Health and Safety Executive to identify and manage risk in line with the Executive's management standards. All staff have access to an independent and confidential counselling, support and advice service. This counselling support is free to staff at the point of use and is totally external to the Office.

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 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 and of its net resource outturn, application of resources, changes in taxpayers' equity and cash flows for the financial year.

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

In preparing these accounts, the Comptroller and Auditor General for Northern Ireland is required to comply with the requirements of the Government Financial Reporting Manual 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 Government Financial Reporting Manual, have been followed, and disclose and explain any material departures in the accounts; and
- prepare the accounts on a going concern basis.

The 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 Managing Public Money Northern Ireland published by the Department of Finance.

So far as the Comptroller and Auditor General is aware, there is no relevant information of which the auditors are unaware. The Comptroller and Auditor General has taken all the steps that he ought to have taken to make himself aware of any relevant audit information and to establish that the auditors are aware of that information. The Comptroller and Auditor General has taken personal responsibility for the annual report and accounts and the judgments required for ensuring they are fair, balanced and understandable.

Governance Statement

Introduction

As Accounting Officer for the NIAO, I have responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of the NIAO's policies, aims and objectives, while safeguarding the public funds and assets for which I am personally responsible, in accordance with the responsibilities assigned to me in Managing Public Money Northern Ireland.

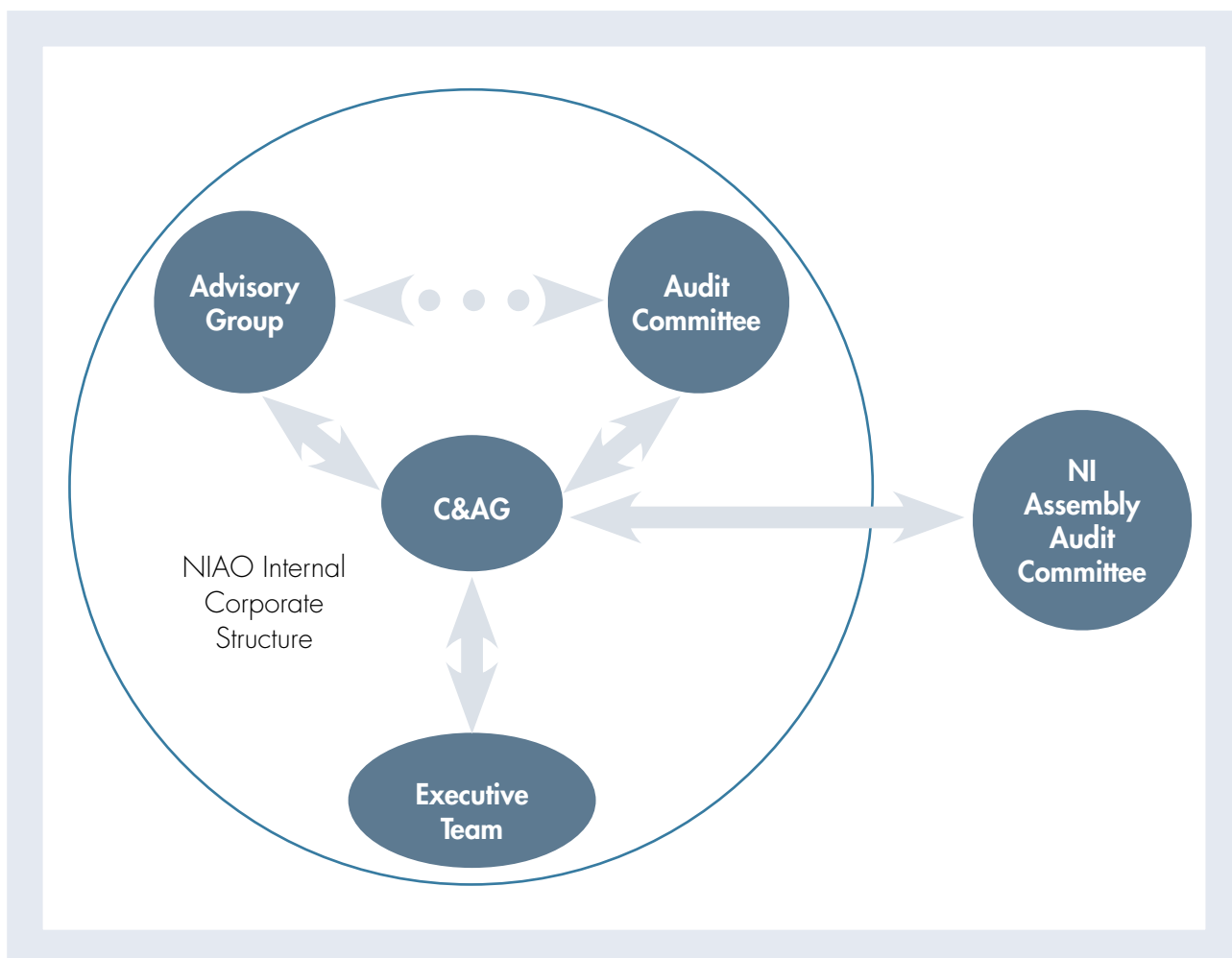
Structure of governance

The NIAO's governance structure reflects the statutory position of the Comptroller and Auditor General, as set out in two key pieces of legislation:

- The Audit (Northern Ireland) Order 1987 provided for the office of Comptroller and Auditor General to be a corporation sole and established the NIAO to assist the Comptroller and Auditor General in the discharge of his statutory functions.
- The Northern Ireland Act 1998 requires that, in exercising his functions, except for any function conferred on him of preparing accounts, the Comptroller and Auditor General shall not be subject to the direction or control of any Minister or Northern Ireland Department or the Assembly. Accordingly, the Comptroller and Auditor General has complete discretion in the discharge of his statutory audit functions, with responsibility for the programme of audit work, all audit opinions and judgements resting with him alone.

As the holder of this office, I have primacy in determining the strategy, staffing and structure of the Office and am responsible for designing and implementing the internal governance arrangements to support the delivery of my statutory functions. In so doing, I seek to comply with the spirit of the 'Corporate governance in central government departments: Code of good Practice NI 2013' ("the Code") issued by the Department of Finance. I accept the tenets of the Code as constituting best practice; however the specific legal constitution of the office of Comptroller and Auditor General as corporation sole means that I cannot directly apply the 2013 Code arrangements to the NIAO. In particular there is no provision in legislation for the establishment of a board.

The internal governance arrangements of the NIAO that I have established are illustrated below and set out in a 'Memorandum of Understanding on the Governance and Accountability Arrangements of the Northern Ireland Audit Office' (MOU) agreed between the Audit Committee of the Assembly, which oversees the performance of the NIAO, and the NIAO (available at www.niassembly.gov.uk/Assembly-Business/Committees/Audit/).



The current structure has been in place since 2011 with the exception of an Advisory Board being reconstituted as the Comptroller and Auditor General’s Advisory Group following a major review of governance arrangements in 2013-14. Internal governance is regularly reviewed to ensure best practice informs the arrangements.

Overall I am content that the NIAO governance arrangements are compliant with the Code on an appropriate and proportionate basis.

Components of governance structure

I am accountable to the Assembly via the Assembly Audit Committee, which has the role defined in section 66 of the Northern Ireland Act 1998. The Audit Committee’s responsibilities include: examining the NIAO Estimate and laying it before the Assembly; considering the NIAO’s Corporate Plan; examining the NIAO Annual Report and Accounts and reports received from the external auditor; providing advice to the Department of Finance on the appointment of the NIAO external auditor; and tabling a motion in the Assembly in respect of the salary of the Comptroller and Auditor General.

The key elements of the internal governance arrangements of the Office are detailed below. Further information on these, including minutes of meetings, are available at www.niauditoffice.gov.uk.

None of the non-executive or executive members of the Office's governance structures in 2015-16 held company directorships or significant interests which might conflict with their responsibilities.

With regard to non-executives, the Office considers conflicts of interest whether real, perceived or potential, during the appointment process and the appointment period. 'Declaration of conflicts of interest' is a standing item at NIAO Audit Committee and Advisory Group meetings. In relation to any conflict of interest, consideration is given to whether it is manageable.

It is important to highlight that NIAO non-executives do not have a role in the development of the Office's programme of audit work, nor are they involved in any direct audit work.

In January 2016 the non-executives received bespoke training on the role of the NIAO Audit Committee and wider governance issues.

NIAO Executive Team

The Executive Team, which comprises myself, as Chair, and the Assistant Auditors General (listed on page 34), normally meets monthly. It is responsible for the strategic and operational leadership of the Office. Subject to my statutory position as a corporation sole and head of the NIAO, the team is the principal mechanism for directing business and decision making in the Office. In alignment with the Code, the business of the Executive Team covers the five key areas of strategic clarity, commercial sense, talented people, results focus and management information.

The Executive Team met 12 times during the year. Ten meetings covered normal scheduled business, one was convened to discuss risk management and one addressed performance management. There was full attendance by members at 9 of the 12 meetings, and in relation to the other three meetings, at least three of the four members were in attendance. Relevant non-members were invited to attend for specific items over the course of the year.

During 2015-16, the Executive Team considered the quality of the data it uses. It identified a need to review management information to ensure clear, consistent and comparable information is available to support decision making and drive improvement. Arising from this exercise, an updated suite of management information has been put in place for 2016-17.

The Office's corporate secretariat function helps ensure that all elements of its governance structure, including the Executive Team, are provided with an appropriate support service.

NIAO Audit Committee

The NIAO Audit Committee's membership comprises non-executives only. One post may be allocated to a representative from a public audit agency in the UK or Ireland. Other members are appointed by

open competition, based on merit, and are ex officio members of the Comptroller and Auditor General’s Advisory Group. The appointment panel comprises three people, including the Comptroller and Auditor General and a member of the Audit Committee of the Assembly.

Each member is appointed for a three year period, which may be extended for a further three years by the C&AG with the endorsement of the Audit Committee of the Assembly. At least one member of the NIAO Audit Committee will have recent and relevant financial experience. (See pages 35 and 36 for commentary on members.)

The NIAO Audit Committee’s role is one of supporting me, as Accounting Officer, in my responsibility for issues of risk, control and governance by reviewing the comprehensiveness, reliability and integrity of assurances. This includes supporting and advising me on the planned activity and results of both internal audit⁴ and external audit (see page 36) and the adequacy of management’s response to issues identified by audit activity, including external audit’s management letter. The NIAO Audit Committee’s terms of reference are available at www.niauditoffice.gov.uk.

The NIAO Audit Committee normally meets at least five times a year. The NIAO Audit Committee may request the attendance of officials of the Office to assist with its discussions on any particular matter. Attendance of members in 2015-16 was as follows:

Members present	NIAO Audit Committee				
	24/04/15	11/06/15	17/09/15	6/11/15	15/02/16
Mary Halton (Resigned June 2015)	✓	✓			
Diane McGiffin (Resigned June 2015)	✓	✓			
Paul Douglas	✓	✓	✓	✓	✓
Áine Gallagher	✓	✓	✓	✓	✓
Gillian Body (Appointed September 2015)			✓	✓	✓
Pat Cumiskey (Appointed November 2015)				✓	✓

4 The Internal Auditor, Mazars, was appointed for a three year period from 2011-12. The appointment was extended to cover the 2014-15 and 2015-16 financial years as permitted by the contract.

On behalf of the NIAO Audit Committee, the Chair provides me with an annual report summarising the Committee's work for the year. The 2015-16 report covered:

- committee members and attendees;
- meetings;
- risk management and internal control;
- internal audit;
- external audit and NIAO's Annual Report and Accounts;
- whistleblowing;
- committee matters;
- governance; and
- the future.

The NIAO Audit Committee is satisfied that it has discharged its duties as guided by its Terms of Reference, and taking account of the work of internal and external audit and assurances provided to the Committee, every effort was made to review and oversee internal control and risk management arrangements and to provide assurances to me, as Accounting Officer, in the discharge of my accountability obligations. Based on its work for the year, the NIAO Audit Committee has provided me with constructive feedback on what it views to be the challenges for the NIAO as well as an indication of its intended areas of focus in 2016-17.

Comptroller and Auditor General's Advisory Group

The role of the Advisory Group is to provide objective and impartial advice to assist me in the discharge of my functions. The group scrutinises the work of the NIAO in the five areas of strategic clarity, commercial sense, talented people, results focus and management information, as set out in the 2013 Code. It has no decision making authority.

The Advisory Group comprises both executives (the Comptroller and Auditor General and Assistant Auditors General) and non-executives, the latter bringing an independent and external perspective to the work of the group.

In 2015-16, its programme focused extensively on business improvement, covering the implementation of the Office's new business model, organisational culture and change, outcome of staff surveys, learning and development and performance management. In performing their role, non-executive members met with staff groups.

The attendance of the five meetings of the Advisory Group in 2015-16 is shown below:

Members present	Comptroller and Auditor General's Advisory Group				
	24/04/15	11/06/15	17/09/15	6/11/15	15/02/16
Kieran Donnelly	✓	✓	✓	✓	✓
Mary Halton (Resigned June 2015)	✓	✓			
Paul Douglas	✓	✓	✓	✓	✓
Áine Gallagher	✓	✓	✓	✓	✓
Pat Cumiskey (Appointed November 2015)				✓	✓
Eddie Bradley	✓		✓	✓	✓
Louise Mason	✓	✓	✓		✓
Janet Sides	✓	✓	✓	✓	✓

In addition, other officials of the Office attended, as required, to assist with the discussion of agenda items. Gillian Body also attended two meetings as an observer.

Risk management and control

The NIAO assesses how the achievement of its policies, aims and objectives might be affected by the risks it faces, and a system of internal control is designed which mitigates those risks. The system is not designed to eliminate all risk but to strike a balance between control, cost of control and appropriate risk taking. A system of internal control has been in place for the whole of 2015-16.

The Office's approach to risk management is guided by professional best practice, and takes full cognisance of the context and environment in which it operates. The NIAO has a comprehensive risk management strategy which sets out roles and responsibilities and determines procedures for risk identification, monitoring, reporting and escalation of issues. It addresses risk appetite which the Office has assessed as "cautious", meaning that tolerance for risk taking is limited to those events where there is little chance of any significant repercussion for the Office should there be a failure.

The Corporate Risk Register is compiled and managed by the Executive Team and facilitates the identification, assessment and ongoing monitoring of risks significant to the NIAO. An issues log is also maintained to record serious issues that arise which threaten the operation and/or reputation of the Office. Emerging risks are added as required, and mitigating actions are put in place and monitored.

Operational audit and corporate support services each develop a risk register ensuring significant risks in their area are identified, assessed and monitored. The Executive Team reviews the Corporate Risk Register in conjunction with operational risk registers.

During 2015-16, the Corporate Risk Register was a standing item at each meeting of the Executive Team and NIAO Audit Committee. Risks at the operational level were also considered by both in accordance with an agreed programme.

In managing risk to the achievement of policies, aims and objectives, the Office applies a range of measures, including:

- recruiting talented staff, providing professional accountancy qualifications, developing training programmes and providing development opportunities;
- developing, maintaining and communicating principles and policies for staff conduct, compliance with which is expected by all. Each year all staff sign a Code of Conduct. Breaches may lead to investigation and other action in accordance with the NIAO's disciplinary policy;
- appropriate methodologies for the NIAO's work, conforming with International Standards on Auditing; and
- control over the quality of audits managed through a system of internal and external review. In particular, the International Standard on Quality Control 1 is applied to financial audit engagements. The outcome of review processes are reported to the NIAO Audit Committee.

Corporate risk 2015-16 – Areas of focus

Corporate risk was identified and managed in relation to: external stakeholders' expectations; managing the Office budget; delivering the programme of work (quality and resources); implementing a business restructuring project (encompassing change, organisational culture and staff engagement); and IT strategic direction.

Areas of particular focus were as follows:

Implementation of new business structure

With effect from 1 January 2015, the Office implemented a fundamental change in its business structure which continues to evolve. It moved from a structure based on functions/disciplines (comprising three Divisions - one each for financial audit, value for money audit and corporate support) to one comprising two clusters with a mixed portfolio of audit work (financial audit and public reporting) based on client departments and a third cluster for corporate support. The purpose of the remodelling is to:

- improve the flexibility and agility of the organisation to better balance workflow and meet peaks in activity, and reduce reliance on temporary appointments (the need for which has been reinforced by budgetary constraints);
- enhance knowledge and skills sharing;

- create a stronger client focus;
- increase opportunities for career development, as well as providing job enrichment and enhancing succession planning; and
- provide greater autonomy in decision-making.

The implementation of this project has been carefully managed with all major associated tasks significantly progressed in 2015-16. The Office remained vigilant to the impact of change on organisational culture and staff engagement, matters which continue to be addressed.

Resources

The Office commenced 2015-16 with a projected deficit of £300,000 in its annual budget which had been reduced by five per cent. Pressure on financial resources reinforced the need for change in how resources were managed and used to deliver audit services to stakeholders. The Office acknowledged a need to rationalise its management structure and move to an optimal grade structure. It also acknowledged that restructuring in central and local government would result in a reduced staff requirement.

In response, a Voluntary Exit Scheme (VES) was implemented, funded through the Northern Ireland Transformation Fund, releasing 14 staff (12.8 FTE) by 31 March 2016. The savings resulting from this scheme, together with a second scheme to be implemented this year, will help manage the reduction in the Office's 2016-17 budget.

The Office is conscious of the need for a properly resourced, professional, independent audit service, particularly in a period of significant change in the public sector. Looking ahead, it will continue to:

- address the challenge of balancing and delivering financial audit and public reporting activity within available resources to meet its statutory requirements and to support the Assembly, including servicing the Public Accounts Committee; and
- ensure the organisation is appropriately resourced in terms of requisite skills, knowledge and experience to meet current and future business needs, and maximise added value for the Assembly and those it audits.

Statement of information risk

Together with the staff of the NIAO, I have privileged and wide-ranging access to data and information to support the discharge of my statutory audit functions and ensure my reports to the Assembly are factual, accurate and complete. The NIAO has a duty to respect this privileged access and to ensure that the personal information entrusted to it is safeguarded properly.

The NIAO has policies and controls in place to ensure that access to information is correctly managed and safeguarded throughout its life cycle including creation, storage, transmission and destruction. NIAO staff are made aware of these policies and controls, and awareness is reinforced through information security training. Checks for compliance with the Data Protection Act 1998 have been performed in 2015-16, and no significant weaknesses were identified.

Information risk is covered by the normal risk management arrangements. I am responsible for ensuring information risks are assessed and mitigated to an acceptable level, and am supported in this role by the Senior Information Risk Owner, a member of the Executive Team, and a network of staff with security responsibilities.

Personal data-related incidents

There were no protected personal data-related incidents which required reporting to the Information Commissioner's Office.

Review of effectiveness

As Accounting Officer, I have responsibility for reviewing the effectiveness of the system of internal control.

My review is informed by the work of the Internal Auditor and the executives within the NIAO 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.

Key risks which could affect the achievement of the Office's objectives are managed actively under the risk management arrangements described above, with progress being reported regularly to the NIAO Audit Committee.

Internal Audit provides an independent opinion on the adequacy and effectiveness of the Office's system of internal control, corporate governance and risk management, together with recommendations for improvement. Almost all recommendations have been accepted by management and implemented, or are in the process of being implemented.

The status of Internal Audit recommendations is regularly reported to the NIAO Audit Committee.

Based on the conclusions of its work, Internal Audit has provided **substantial** assurance in relation to the NIAO's arrangements for internal control, risk management and governance in areas where audit work was performed.

Significant internal control weaknesses

I am able to report that there were no significant weaknesses in the NIAO's system of internal controls in 2015-16 which affected the achievement of the Office's key policies, aims and objectives.



Kieran Donnelly
Comptroller and Auditor General for Northern Ireland

24 June 2016

Remuneration and Staff Report

Remuneration Report

Remuneration Policy

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 the Northern Ireland Assembly. The Comptroller and Auditor General for Northern Ireland retains office unless removed by a resolution of the Northern Ireland Assembly supported by at least two thirds of members. The Audit (Northern Ireland) Order 1987 provides for the remuneration of the Comptroller and Auditor General for Northern Ireland to be met from the Consolidated Fund for Northern Ireland, rather than the NIAO's Estimate. The remuneration and associated pension and national insurance contributions are disclosed in Note 4 to the Accounts on page 83 as Consolidated Fund Standing Services.

Senior Management

The Audit (Northern Ireland) Order 1987 provides that the Comptroller and Auditor General shall appoint such staff as he considers necessary for assisting him in the discharge of his functions and for the purpose of Article 4 of the Local Government (Northern Ireland) Order 2005 as amended (designation of a member of staff as the local government auditor).

The Audit (Northern Ireland) Order 1987 further provides that these staff shall be appointed at such remuneration and on such other terms and conditions as the Comptroller and Auditor General shall determine, subject to him having regard to the desirability of keeping the remuneration and terms and conditions broadly in line with those applying to the persons employed in the National Audit Office and in the Civil Service of Northern Ireland.

Northern Ireland Audit Office staff normally hold appointments that are open-ended. Early termination, other than for misconduct, would result in the individual receiving compensation as set out in the Civil Service Compensation Scheme.

Appointments to senior management are made by the Comptroller and Auditor General on the basis of fair and open competition. When holding competitions and making appointments, the Comptroller and Auditor General takes into account the Northern Ireland Civil Service policies and procedures in this area.

Up to and including 2015-16 the pay award for senior management and all staff has been a percentage uplift on basic pay, based on an annual assessment of staff performance reports. The Office's pay system is currently under review to determine an approach that best suits the needs of the business going forward.

Remuneration and Pension Entitlements

The following sections provide details of the remuneration and pension interests of the Comptroller and Auditor General and members of the Northern Ireland Audit Office Executive Team. The information on pages 49 to 51 is covered by the audit opinion.

Remuneration (including salary) and pension entitlements (Audited)

	2015-16					2014-15				
	Salary	Bonus Payments	Benefits in kind (to nearest £100)	Pension Benefits*	Total	Salary	Bonus Payments	Benefits in kind (to nearest £100)	Pension Benefits*	Total
	£'000	£'000	£100)	£'000	£'000	£'000	£'000	£100)	£'000	£'000
Kieran Donnelly Comptroller and Auditor General	140-145	–	–	34	175-180	140-145	–	–	28	165-170
Louise Mason Assistant Auditor General	95-100	–	–	43	140-145	95-100	–	–	41	135-140
Janet Sides Assistant Auditor General	95-100	–	–	45	140-145	95-100	–	–	49	140-145
Eddie Bradley Assistant Auditor General	90-95	–	–	44	135-140	90-95	–	–	114	205-210
Band of Highest Earner's Total Remuneration**	140-145					140-145				
Median Total Remuneration	45,379					45,286				
Ratio	3.1					3.1				

* The value of pension benefits accrued during the year is calculated as (the real increase in pension multiplied by 20) plus (the real increase in any lump sum) less (the contributions made by the individual). The real increases include increases due to inflation and any increase or decrease due to a transfer of pension rights.

** Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind and severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

‘Salary’ includes gross salary and any allowance to the extent that it is subject to UK taxation.

‘Bonus payments’ are not made to our staff. Up to and including 2015-16 the performance appraisal process in the Office is used to uplift basic pay within pay scales.

‘Benefits in kind’ cover any benefits provided by the Office and treated by HM Revenue and Customs as a taxable emolument. No such benefits were provided during 2015-16.

Non-Executive Members

During 2015-16 the following remuneration was payable to non-executives in undertaking their NIAO Advisory Group and NIAO Audit Committee role duties:

	£'000
Aine Gallagher	5 - 7.5
Paul Douglas	5 - 7.5
Pat Cumiskey	2.5 - 5
Mary Halton	2.5 - 5

No remuneration was paid to Diane McGiffen from Audit Scotland or Gillian Body from the Wales Audit Office.

Pension entitlements (Audited)

The pension entitlements of the Comptroller and Auditor General and members of the Northern Ireland Audit Office Executive Team were as follows:

Name and Title	Accrued pension at pension age as at 31/3/16 £'000	Real increase in pension £'000	Accrued lump sum at pension age as at 31/3/16 £'000	Real increase in lump sum £'000	CETV* at 31 March 2016 £'000	CETV at 31 March 2015 £'000	Real increase in CETV £'000
Kieran Donnelly Comptroller and Auditor General	55-60	0-2.5	170-175	5-10	1,266	1,163	32
Louise Mason Assistant Auditor General	30-35	0-2.5	95-100	5-10	641	566	35
Janet Sides Assistant Auditor General	35-40	0-2.5	110-115	5-10	751	669	40
Eddie Bradley Assistant Auditor General	35-40	0-2.5	110-115	5-10	731	647	37

* CETV = cash equivalent transfer values

Pension Arrangements

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.

Pension benefits are provided through the Northern Ireland Civil Service pension arrangements which are administered by Civil Service Pensions (CSP). Staff in post prior to 30 July 2007 may be in one of three statutory based 'final salary' defined benefit arrangements (classic, premium and classic plus). These arrangements are unfunded, with the cost of benefits met by monies voted by the Assembly each year. From April 2011, pensions payable under classic, premium, and classic plus are increased annually in line with changes in the Consumer Prices Index (CPI). Prior to 2011, pensions were increased in line with changes in the Retail Prices Index (RPI). New entrants joining on or after 1 October 2002 and before 30 July 2007 could choose between membership of premium or joining a good quality 'money purchase' stakeholder arrangement with a significant employer contribution (partnership pension account). New entrants joining on or after 30 July 2007 were eligible for membership of the nuvos arrangement or they could have opted for a partnership pension account. Nuvos is a 'Career Average Revalued Earnings' (CARE) arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The current rate is 2.3 per cent. CARE pension benefits are increased annually in line with increases in the CPI.

A new pension scheme, alpha, was introduced for new entrants from 1 April 2015. The majority of existing members of the NICS pension arrangements have also moved to alpha from that date. Members who on 1 April 2012 were within 10 years of their normal pension age will not move to alpha and those who were within 13.5 years and 10 years of their normal pension age were given a choice between moving to alpha on 1 April 2015 or at a later date determined by their age. alpha is also a 'Career Average Revalued Earnings' (CARE) arrangement in which members accrue pension benefits at a percentage rate of annual pensionable earnings throughout the period of scheme membership. The rate will be 2.32 per cent. CARE pension benefits are increased annually in line with increases in the CPI.

Increases to public service pensions are the responsibility of HM Treasury. Pensions are reviewed each year in line with the cost of living. Increases are applied from April and are determined by the CPI figure for the preceding September. The CPI in September 2015 was negative (-0.1 per cent) and HM Treasury has announced that there will be no increase to public service pensions from April 2016. Therefore public service pensions will remain at their current level.

Employee contribution rates for all members for the period covering 1 April 2016 to 31 March 2017 are as follows:

Scheme Year 1 April 2016 to 31 March 2017

Annualised Rate of Pensionable Earnings (Salary Bands)		Contribution rates – Classic members or classic members who have moved to alpha	Contribution rates – All other members
From	To	From 01 April 2016 to 31 March 2017	From 01 April 2016 to 31 March 2017
£0	£15,000.99	3.8%	4.6%
£15,001.00	£21,210.99	4.6%	4.6%
£21,211.00	£48,471.99	5.45%	5.45%
£48,472.00	£150,000.99	7.35%	7.35%
£150,001.00 and above		8.05%	8.05%

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 as per classic.

The partnership pension account is a stakeholder pension arrangement. The employer makes a basic contribution of between 3 per cent and 14.7 per cent (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 per cent of pensionable salary (in addition to the employer's basic contribution). Employers also contribute a further 0.5 per cent of pensionable salary to cover the cost of centrally-provided risk benefit cover (death in service and ill health retirement).

The accrued pension quoted is the pension the member is entitled to receive when they reach pension age, or immediately on ceasing to be an active member of the scheme if they are at or over pension age. Pension age is 60 for members of **classic**, **premium**, and **classic plus** and 65 for members of **nuvos**. The normal pension age in alpha is linked to the member's State Pension Age but cannot be before age 65. Further details about the NICS pension arrangements can be found at the website <https://www.finance-ni.gov.uk/topics/working-northern-ireland-civil-service/civil-service-pensions-ni>.

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 the other pension details, include the value of any pension benefit in another scheme or arrangement which the individual has transferred to the NICS pension arrangements. 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 in accordance with The Occupational Pension Schemes (Transfer Values) (Amendment) Regulations 2008 and do not take account of any actual or potential benefits resulting from Lifetime Allowance Tax which may be due when pension benefits are taken.

Real increase in CETV

This reflects the increase in CETV effectively funded by the employer. It does not include the increase in accrued pension due to inflation, contributions paid by the employee (including the value of any benefits transferred from another pension scheme or arrangement) and uses common market valuation factors for the start and end of the period. The actuarial factors used to calculate CETVs changed during the 2015-16 year and, consequently, CETV figures increased even without any further pension accrual. However, the real increase calculation uses common actuarial factors at the start and end of the period so that it disregards the effect of any changes in factors and focuses only on the increase that is funded by the employer.

Compensation for loss of office (Audited)

No members of senior management lost office during 2015-16.

Review of Fair Pay (Audited)

Reporting bodies are required to disclose the relationship between the remuneration of the highest-paid earner in their organisation and the median remuneration of the organisation's workforce.

The banded remuneration of the highest-paid earner in NIAO in the financial year 2015-16 was £140,000 to £145,000 (2014-15: £140,000 to £145,000). This was 3.1 times (2014-15: 3.1) the median remuneration of the workforce, which was £45,739 (2014-15: £45,286).

Remuneration ranged from £5,000 to £140,300 (2014-15: £5,000 to £140,300).

Total remuneration includes salary, non-consolidated performance-related pay, benefits-in-kind and severance payments. It does not include employer pension contributions and the cash equivalent transfer value of pensions.

The highest paid earner of the Office is the Comptroller and Auditor General who is also the Accounting Officer. However, as noted on page 48, the salary of the Comptroller and Auditor General is met from the Consolidated Fund rather than the Office's Supply Estimate.

Staff Report

The 109 permanent full time equivalent staff at 31 March 2016 (2014-15: 126) comprised:

	Male	Female
Executive Team	1	2
Directors	6	2
Other Staff	46	52
Total	53	56

The reduction in the number of permanent staff reflects the outcome of the Office's Voluntary Exit Scheme (see page 8 for further comment) and in-year staff resignations.

Staff Costs (Audited)

Staff costs comprise:

	2015-16			2014-15
	£'000			£'000
	Permanently employed staff	Others	Total	Total
Wages and Salaries	5,481	11	5,492	5,746
Social Security Costs	494	–	494	507
Other Pension Costs	1,345	–	1,345	1,192
Total net costs	7,320	11	7,331	7,445

The salary and other costs of the Comptroller and Auditor General are not included within the above costs as his remuneration is met directly from the Consolidated Fund for Northern Ireland.

The Northern Ireland Civil Service pension arrangements are unfunded multi-employer defined benefit schemes. The scheme does not identify the NIAO's share of the underlying assets and liabilities. The most up-to-date actuarial valuation was carried out as at 31 March 2012. This valuation is then reviewed by the Scheme Actuary and updated to reflect current conditions and rolled forward to the reporting date of the Department of Finance's Superannuation and Other Allowances Annual Report and Accounts as at 31 March 2016.

For 2015-16, employers' contributions of £1,344,654.18 were payable to the NICS pension arrangements (2014-15: £1,192,144) at one of three rates in the range 20.8% to 26.3% of pensionable pay, based on salary bands. The scheme's Actuary reviews employer contributions every four years following a full scheme valuation. A new scheme funding valuation based on data as at 31 March 2012 was completed by the Actuary during 2014-15. This valuation was used to determine employer contribution rates for the introduction of alpha from April 2015. For 2016-17, the rates will range from 20.8 per cent to 26.3 per cent. The contribution rates are set to meet the cost of the benefits accruing during 2015-16 to be paid when the member retires, and not the benefits paid during this period to existing pensioners.

Employees can opt to open a partnership pension account, a stakeholder pension with an employer contribution. Employers' contributions of £nil (2014-15: £nil) were paid to one or more of the panel of three appointed stakeholder pension providers. Employer contributions are age-related and range from 3 per cent to 14.7 per cent (2014-15: 3 per cent to 12.5 per cent) of pensionable pay. Employers also match employee contributions up to 3 per cent of pensionable pay. In addition, employer contributions of £nil, 0.5 per cent (2014-15: £nil, 0.8 per cent) of pensionable pay were payable to the NICS Pension Arrangements to cover the cost of the future provision of lump sum benefits on death in service and ill health retirement of these employees.

Contributions due to the **partnership** pension providers at the reporting period date were £nil. Contributions prepaid at that date were £nil.

No persons (2014-15: 0 persons) retired early on ill-health grounds; the total additional accrued pension liabilities in the year amounted to £nil (2014: 15: £nil).

Average number of persons employed (Audited)

The average number of full time equivalent persons employed during the year was as follows.

		2015-16	2014-15
Permanent Staff	Others	Total	Total
121	–	121	131

Reporting of Civil Service and other compensation schemes - exit packages (Audited)

There were no compulsory redundancies in 2015-16 (2014-15: nil). The number and costs of other departures in relation to the Voluntary Exit Scheme which are included in Note 4 to the Accounts – Other Administration Costs, are shown in the table below:

Exit package cost band	Number of Voluntary Exits
£10,000 - £25,000	4 (2014-15: 0)
£25,000 - £50,000	3 (2014-15: 0)
£50,000 - £100,000	6 (2014-15: 0)
£100,000 - £150,000	1 (2014-15: 0)
Total number of exit packages	14 (2014-15: 0)
Total cost	£677,000 (2014-15: 0)

Redundancy and other departure costs are paid in accordance with the provisions of the Civil Service Compensation Scheme (Northern Ireland), a statutory scheme made under the Superannuation (Northern Ireland) Order 1972. Exit costs are accounted for in full in the year of departure. Where NIAO has agreed early retirements and voluntary exits, the additional costs are met by NIAO and not by the Civil Service pension scheme. Ill-health retirement costs are met by the pension scheme and are not included in the table.

As noted on page 8 the Office is implementing a second Voluntary Exit Scheme in 2016-17.

Sickness Absence

We have a comprehensive attendance management policy, providing advice and information to staff on matters relating to sickness absence, and setting out the procedures to be followed in reporting and monitoring attendance in the Office.

The average number of days' sickness absence was 7.8 days per employee in 2015-16 compared with 8.2 days per employee in 2014-15. The lost days' rate increased from 3.27 per cent in 2014-15 to 3.45 per cent in 2015-16. Whilst the number of short term absences increased between 2014-15 and 2015-16, the number of long term absences (greater than 20 days) decreased. All cases of sickness absence are actively managed by the Office, in accordance with its policy.

Staff Equality Policies

NIAO is fully committed to the effective promotion of equality of opportunity in all its employment policies and procedures. This includes ensuring that all applications for employment are considered fairly and consistently, on the basis of merit. The NIAO strives to create an environment where all staff are valued and encouraged to develop to their full potential. We recognise that the provision of equality of opportunity in the workplace is not only good management practice, it also makes sound business sense. Our policies will help all employees to develop their full potential and the talents and resources of the workforce will be fully utilised to maximise the efficiency of the Office.

The NIAO will continue to consult as widely as possible to ensure that any organisation or group which has a legitimate, particular interest in its work and/or likely impact of its policies on its disability duties will be included in the process of engagement.

Consultancy

In 2015-16, the Office paid £23,000 (2014-15: £84,000) to external consultants. This amount comprises £23,000 (2014-15: £62,000) included in Professional Services Bought In disclosed in Note 4 to the Accounts and £nil (2014-15: £22,000) included within Other Staff Costs disclosed in Note 3 to the Accounts.

'Off-Payroll' Engagements

Off-payroll engagements are those where individuals, either self-employed or acting through a personal service company, are paid gross by the employer. In line with HM Treasury requirements, the Department of Finance requires disclosure of such engagements that were in place during 2015-16 costing over £58,200 per annum. The Office had no off-payroll engagements commencing, ending or operating during 2015-16.

Assembly Accountability and Audit Report

Statement of Assembly Supply (Audited)

In addition to the primary statements prepared under International Financial Reporting Standards, the Government Financial Reporting Manual (FRM) requires the Northern Ireland Audit Office to prepare a Statement of Assembly Supply (SOAS) and supporting notes to show resource outturn against the Supply Estimate presented to the Assembly, in respect of each request for resources.

Summary of Resource Outturn 2015-16

	Note	ESTIMATE			OUTTURN			Net total outturn compared with Estimate: saving/ (excess)	2014-15 Outturn
		Gross Expenditure	Accruing Resources	Net Expenditure	Gross Expenditure	Accruing Resources	Net Total		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Request for resource A*	SOAS1	11,183	2,398	8,785	10,635	2,398	8,237	548	7,739
Total resources	SOAS2	11,183	2,398	8,785	10,635	2,398	8,237	548	7,739
Non-Operating cost Accruing resources		–	–	–	–	–	–	–	–

*Request for Resource A: Providing audit and other assurance services and promoting economy, efficiency and effectiveness in the use of public funds and resources.

Net Cash Requirement 2015-16

	Note	2015-16 £'000		Net Total outturn compared with Estimate: saving/ (excess)	2014-15
		Estimate	Outturn		£'000
Net Cash Requirement	SOAS3	9,153	7,604	1,549	8,031

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 (cash receipts being shown in italics).

	Note	Forecast 2015-16		Outturn 2015-16	
		Income £'000	Receipts £'000	Income £'000	Receipts £'000
Total	SOAS4	–	–	108	32

Explanations of variances between the Estimate and outturn figures are given in Note SOAS1 and the Performance Report.

SOAS1 Analysis of Net Resource Outturn by Function

	2015-16								2014-15
	OUTTURN						ESTIMATE		Prior Year Outturn
	Admin	Other Current	Grants	Gross Resource Expenditure	Accruing Resources	Net Total	Net Total	Net Total outturn compared with Estimate	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Request for Resources A									
Function A-1	–	10,633	–	10,633	2,398	8,235	8,774	539	7,738
Function A-2	–	–	–	–	–	–	1	1	(1)
Function A-3	–	2	–	2	–	2	10	8	2
Resource Outturn	–	10,635	–	10,635	2,398	8,237	8,785	548	7,739

The largest element of the variance between the Estimate and the Outturn Net Resource Requirement was in respect of the Voluntary Exit Scheme which was ring-fenced funding. Whilst the number of staff departing was in line with plans, the grade mix comprised fewer senior and more junior staff than projected. In addition savings arose from a reduction in salaries arising from a reduced liability for employee benefits compared with the forecast. Other reductions included less expenditure than forecast on outsourcing, IT and other overhead costs.

More detailed explanations of the variances are given in the Performance Report.

Key to Request for Resources and Functions

Request for Resource A: Providing audit and other assurance services and promoting economy, efficiency and effectiveness in the use of public funds and resources.

Function A-1: Audit and Assurance Services (Departmental Expenditure Limit)

Function A-2: Audit and Assurance Services (Annually Managed Expenditure)

Function A-3: Notional Charges

SOAS2 Reconciliation of Net Resource Outturn to Net Operating Cost

	Note	2015-16 £'000			2014-15 £'000
		Outturn	Supply Estimate	Outturn compared with Estimate	Outturn
Net Resource Outturn		8,237	8,785	548	7,739
Non-supply income (CFERs)	SOAS5	(108)	–	108	(31)
Non-supply expenditure	4	196	196	–	194
Net Operating Cost in Statement of Comprehensive Net Expenditure		8,325	8,981	656	7,902

SOAS3 Reconciliation of Net Resource Outturn to Net Cash Requirement

	Note	Estimate £'000	Outturn £'000	Net Total Outturn compared with Estimate: saving / (excess) £'000
Net Resource Outturn	SOAS2	8,785	8,237	548
Capital				
Acquisition of non-current assets	6,7	40	36	4
Accruals to cash adjustments:				
<i>Adjustments to remove non-cash items:</i>				
Depreciation	4	(225)	(199)	(26)
New provisions, and adjustments to previous provisions	12	(1)	–	(1)
Other non-cash items	4	(10)	(2)	(8)
Changes in working capital other than cash		500	(531)	1,031
Use of provision	12	64	63	1
Net Cash Requirement		9,153	7,604	1,549

SOAS4 Analysis of Income payable to the Consolidated Fund

In addition to Accruing Resources, the following income relates to the Office and is payable to the Consolidated Fund (*cash receipts being shown in italics*)

	Forecast 2015-16 £'000		Outturn 2015-16 £'000	
	Income	Receipts	Income	Receipts
Operating income and receipts - excess Accruing Resources	-	-	107	<i>31</i>
Other operating income and receipts - not classified as Accruing Resources	-	-	1	<i>1</i>
Total income payable to the Consolidated Fund	-	-	108	<i>32</i>

SOAS5 Reconciliation of Income recorded within the Statement of Comprehensive Net Expenditure to Operating Income payable to the Consolidated Fund

	Note	2015-16 £'000	2014-15 £'000
Operating Income	5	2,506	2,654
Income authorised to be used as Accruing Resources		<u>2,398</u>	<u>2,623</u>
Operating income payable to the Consolidated Fund	SOAS4	108	31

Other Assembly Accountability Disclosures (Audited)

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.

Fees and Charges

The Office has a target of recovering the full cost of undertaking fee paying work.

	2015-16			2014-15		
	Income £'000	Full Cost £'000	Surplus/ (deficit) £'000	Income £'000	Full Cost £'000	Surplus/ (deficit) £'000
Fee Income						
NAO Agency Fees	459	458	1	363	358	5
Other Financial Audit Fees	1,025	1,070	(45)	1,055	1,154	(99)
Local Government Audit Fees	868	829	39	872	857	15
NFI	14	14	–	246	246	–
	2,366	2,371	(5)	2,536	2,615	(79)
Other Income						
CFERs	1			–		
Income from secondments	139			118		
Total	2,506			2,654		

The information here is provided solely to meet the requirements of the Department of Finance's "Fees and Charges" guide and is not disclosed for the purpose of IFRS 8.

Remote Contingent Liabilities

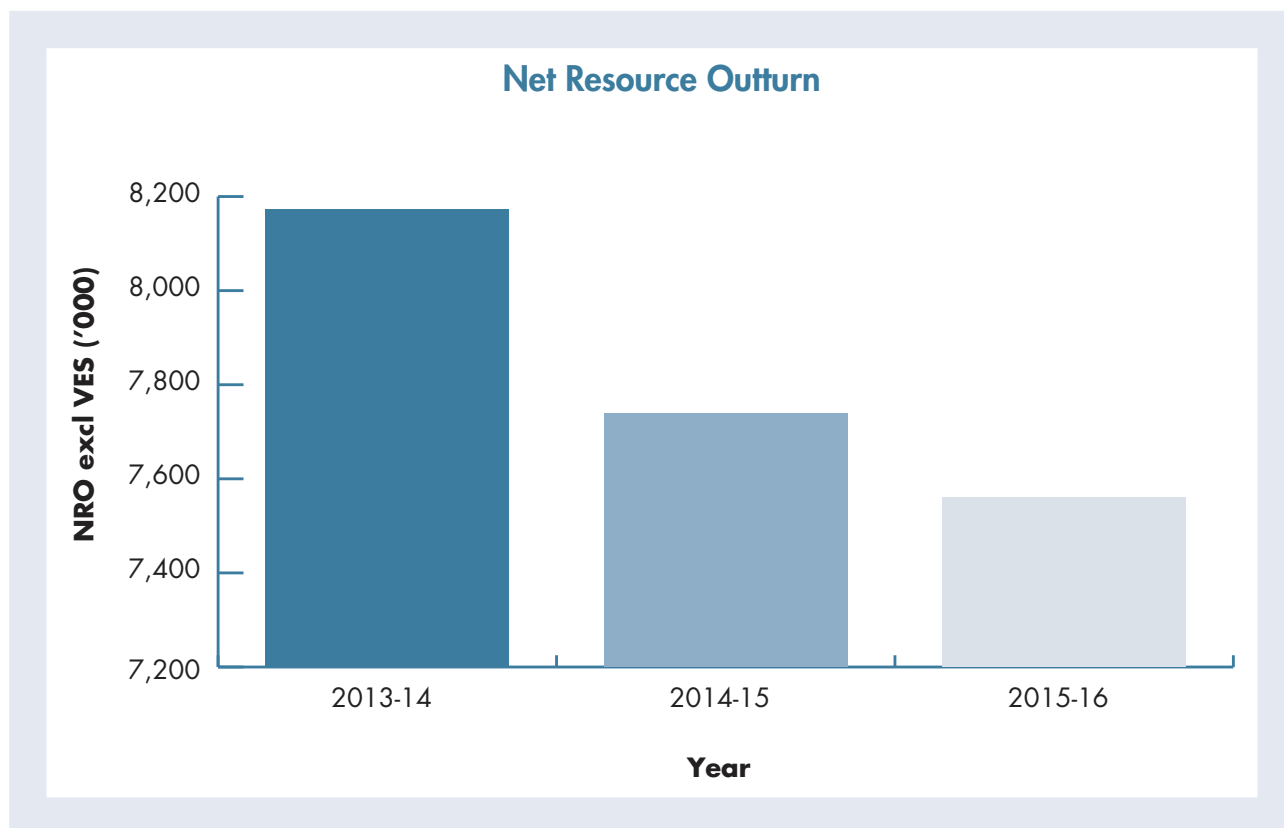
In addition to contingent liabilities reported within the meaning of International Accounting Standard (IAS) 37, the Office is required to report liabilities for which the likelihood of economic benefit in settlement is too remote to meet the definition of a contingent liability. The Office has no such liabilities.

Long Term Expenditure Trends

The Office’s outturn in Estimate and Budget terms for the period 2013-14 to 2015-16 is set out below.

Estimate

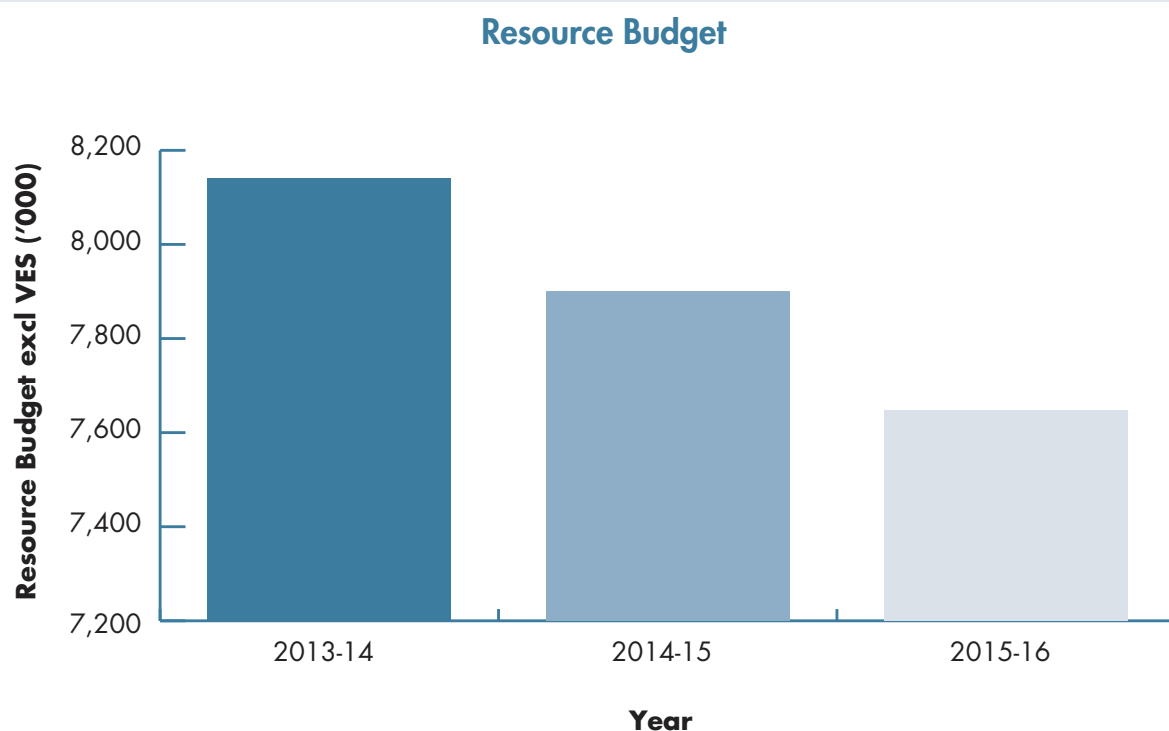
	2013-14 £'000	2014-15 £'000	2015-16 £'000
Net Resource Outturn (NRO)	8,173	7,739	8,237
Voluntary Exit Scheme (VES) expenditure	–	–	677
NRO excluding VES	8,173	7,739	7,560



As indicated on page 25 staff costs account for approximately 70 per cent of the Office’s outturn each year. The Statement of Comprehensive Net Expenditure on page 74 and its notes provide a breakdown of income and expenditure in 2014-15 and 2015-16.

Budget

	2013-14 £'000	2014-15 £'000	2015-16 £'000
Resource DEL	8,108	7,977	8,387
Resource AME	33	(77)	(63)
Resource Budget	8,141	7,900	8,324
VES expenditure	–	–	677
Resource Budget excluding VES	8,141	7,900	7,647



The Resource Budget differs from the Net Resource Outturn as it includes Consolidated Fund Standing Services but excludes Notional Charges. Resource AME (Annually Managed Expenditure) relates to the increase and spend of the Office's Early Retirement Cost provision.

Capital

Capital DEL	136	37	36
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The reduction in the Office's Capital expenditure arises from the Office's move from in-house IT provision to outsourced IT services provided by IT Assist which is part of the Northern Ireland Civil Service's Shared Services Centre.



Kieran Donnelly
Comptroller and Auditor General for Northern Ireland

24 June 2016

Independent Auditor's Report to 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 2016 under the Audit (Northern Ireland) Order 1987. These comprise the Statements of Comprehensive Net Expenditure, Financial Position, Cash Flows, Changes in Taxpayers' Equity and the related notes. These financial statements have been prepared under the accounting policies set out within them. We have also audited the Statement of Assembly Supply and the related notes, the other Assembly Accountability Disclosures and the information in the Remuneration and Staff Report that is described in that report as having been audited.

Respective responsibilities of the Accounting Officer and Auditor

As explained more fully in the Statement of Accounting Officer's Responsibilities, the Accounting Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

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

In addition, we read all the financial and non-financial information in the Performance and Accountability Report sections of the Annual Report and within the unaudited part of the Remuneration and Staff Report to identify any material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect, based on, or materially inconsistent with, the knowledge acquired by us in the course of performing our audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

We are required to obtain sufficient evidence to give reasonable assurance that the Statement of Assembly Supply properly presents the Outturn against voted Assembly Control totals and that those totals have not been exceeded.

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

Opinion on Regularity

In our opinion, in all material respects:

- The Statement of Assembly Supply properly presents the Outturn against voted Assembly control totals for the year ended 31 March 2016 and shows that those totals have not been exceeded; and
- the expenditure and income recorded in the financial statements have been applied to the purposes intended by the Assembly and the financial transactions recorded in the financial statements conform to the authorities which govern them.

Opinion on Financial Statements

In our opinion:

- the financial statements give a true and fair view of the state of the Northern Ireland Audit Office's affairs as at 31 March 2016 and of its total comprehensive net expenditure, cash flows and changes in taxpayers' equity for the year then ended; and
- the financial statements have been properly prepared in accordance with the Audit (Northern Ireland) Order 1987 and the relevant Department of Finance (formerly the Department of Finance and Personnel) guidance.

Opinion on other matters

In our opinion:

- the Other Assembly Accountability Disclosures and those parts of the Remuneration and Staff Report to be audited have been properly prepared in accordance with the guidance issued by the Department of Finance; and
- the information given in the Performance and Accountability Report sections of the Annual Report and within the unaudited part of the Remuneration and Staff Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We have nothing to report in respect of the following matters which we report to you if, in our opinion:

- adequate accounting records have not been kept; or
- the financial statements and the parts of the Remuneration and Staff Report to be audited are not in agreement with the accounting records; or

- we have not received all of the information and explanations we require for our audit; or
- the Governance Statement does not reflect compliance with Department of Finance's guidance.

We have no observations to make on these financial statements.

Baker Tilly Mooney Moore

Baker Tilly Mooney Moore
Chartered Certified Accountants and Registered Auditor
17 Clarendon Road
Clarendon Dock
Belfast
BT1 3BG

24 June 2016

Financial Statements

Statement of Comprehensive Net Expenditure For the year ended 31 March 2016

This account summarises the expenditure and income generated and consumed on an accruals basis. It also includes other comprehensive income and expenditure, which include changes to the value of non-current assets and other financial instruments that cannot yet be recognised as income or other expenditure.

	Note	2015-16		2014-15	
		£'000	£'000	£'000	£'000
Other Operating Income	5		(2,506)		(2,654)
Staff Costs	3	7,331		7,445	
Purchase of Goods and Services	4	3,301		2,910	
Depreciation	4	199		202	
Provision Expense	4	–		(1)	
Total Operating Expenditure			10,831		10,556
Net Operating Expenditure	SOAS2		8,325		7,902
Other Comprehensive Net Expenditure					
Items that will not be reclassified to net operating costs:					
- Net (gain) on revaluation of Property, Plant and Equipment	6		(132)		(129)
Comprehensive Net Expenditure for the year			8,193		7,773

The notes on pages 78 to 91 form part of these accounts

Statement of Financial Position as at 31 March 2016

This statement presents the financial position of the Office. It comprises three main components: assets owned or controlled; liabilities owed to other bodies; and equity, the remaining value of equity.

	Note	31 March 2016		31 March 2015	
		£'000	£'000	£'000	£'000
Non-current Assets					
Property, plant and equipment	6	3,266		3,277	
Intangible Assets	7	90		111	
Total non-current assets			3,356		3,388
Current Assets					
Inventories		338		359	
Trade receivables		72		167	
Prepayments		55		49	
Cash and cash equivalents	10	387		261	
Total current assets			852		836
Total Assets			4,208		4,224
Current liabilities					
Trade and other payables	11	(1,388)		(843)	
Provisions	12	(20)		(63)	
Total current liabilities			(1,408)		(906)
Total assets less current liabilities			2,800		3,318
Non-current liabilities					
Provisions	12	(36)		(56)	
Total non-current liabilities			(36)		(56)
Total assets less liabilities			2,764		3,262
Taxpayers' equity:					
General Fund			(41)		589
Revaluation Reserve			2,805		2,673
Total equity			2,764		3,262



Kieran Donnelly
Comptroller and Auditor General for Northern Ireland

The notes on pages 78 to 91 form part of these accounts

24 June 2016

Statement of Cash Flows for the year ended 31 March 2016

The Statement of Cash Flows shows the changes in cash and cash equivalents of the Office during the reporting period. The statement shows how the Office generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of services costs and the extent to which these operations are funded by way of income from the recipients of services provided by the Office. Investing activities represent the extent to which cash inflows and outflows have been made for resources which are intended to contribute to the Office's future public service delivery.

	Note	2015-16 £'000	2014-15 £'000
Cash flows from operating activities			
Net operating expenditure		(8,325)	(7,902)
Adjustment for non-cash transactions	4	201	203
Decrease/(Increase) in trade receivables and prepayments		89	(29)
Decrease in Inventories		21	42
Increase/(Decrease) in trade payables	11	545	(359)
less movements in payables relating to items not passing through the Statement of Comprehensive Net Expenditure		(195)	(18)
Use of provisions	12	(63)	(76)
Net cash outflow from operating activities		<u>(7,727)</u>	<u>(8,139)</u>
Cash flows from investing activities			
Purchase of property, plant and equipment	6,11	(26)	-
Purchase of intangible assets	7	(15)	(28)
Net cash outflow from investing activities		<u>(41)</u>	<u>(28)</u>
Cash flows from financing activities			
From the Consolidated Fund (Supply) – current year		7,730	8,100
From the Consolidated Fund (non-Supply)	4	196	194
Net financing		<u>7,926</u>	<u>8,294</u>
Net increase in cash and cash equivalents in the period before adjustment for receipts and payments to the Consolidated fund		158	127
Payments of amounts due to the Consolidated Fund		(32)	(92)
Net increase in cash and cash equivalents in the period after adjustment for receipts and payments to the Consolidated Fund		126	35
Cash and cash equivalents at the beginning of the period	10	261	226
Cash and cash equivalents at the end of the period	10	<u>387</u>	<u>261</u>

The notes on pages 78 to 91 form part of these accounts

Statement of Changes in Taxpayers' Equity for the year ended 31 March 2016

This statement shows the movement in the year on the different reserves held by the Office analysed into 'general fund reserves' (i.e. those reserves that reflect a contribution from the Consolidated Fund). The Revaluation Reserve reflects the change in asset values that have not been recognised as income or expenditure. The General Fund represents the total assets less liabilities of the Office, to the extent that the total is not represented by other reserves and financing items.

	Note	General Fund £'000	Revaluation reserve £'000	Total reserves £'000
Balance at 31 March 2014		296	2,544	2,840
Net Assembly Funding - drawn down		8,100	–	8,100
Net Assembly Funding - deemed		191	–	191
Consolidated Fund Standing Services	4	194	–	194
Supply payable adjustment	11	(261)	–	(261)
CFERs payable to the Consolidated Fund	SOAS4	(31)	–	(31)
Comprehensive Net Expenditure for the year		(7,902)	129	(7,773)
Non-cash charges - notional costs	4	2	–	2
Balance at 31 March 2015		589	2,673	3,262
Net Assembly Funding - drawn down		7,730	–	7,730
Net Assembly Funding - deemed		261	–	261
Consolidated Fund Standing Services	4	196	–	196
Supply payable adjustment	11	(386)	–	(386)
CFERs payable to the Consolidated Fund	SOAS4	(108)	–	(108)
Comprehensive Net Expenditure for the year		(8,325)	132	(8,193)
Non-cash charges - notional costs	4	2	–	2
Balance at 31 March 2016		(41)	2,805	2,764

The notes on pages 78 to 91 form part of these accounts

Notes to the Resource Accounts

1. Statement of Accounting Policies

These financial statements have been prepared in accordance with Article 6 of the Audit (Northern Ireland) Order 1987, as amended by the Government Resources and Accounts Act (Northern Ireland) 2001 which require the Northern Ireland Audit Office to prepare resource accounts. In meeting this requirement, the financial statements have been prepared in accordance with the 2015-16 *Government Financial Reporting Manual (FReM)* issued by the Department of Finance. The accounting policies contained in FReM apply International Financial Reporting Standards (IFRS) as adapted or interpreted for the public sector context.

Where the FReM permits a choice of accounting policy, the accounting policy which is judged to be 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 particular policies adopted by the Northern Ireland Audit Office are described below. They have been applied consistently in dealing with items that are considered material to the accounts.

In addition to the primary statements prepared under IFRS, FReM also requires the Office to prepare one additional primary statement. The *Statement of Assembly Supply* and supporting notes show outturn against the Estimate in terms of the net resource requirement and the net cash requirement.

1.1 Accounting convention

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

1.2 Property, plant and equipment

Land and buildings have been included on the basis of professional valuations performed by Land & Property Services (LPS). The valuations provided by LPS as at 31 October 2015 are open market value existing use, with the building valued on the basis of fitted out accommodation rather than solely as the shell of the building. Consequently certain items previously included with furniture and fittings are classified as buildings.

Information technology and furniture have been restated using valuation indices produced by the Office for National Statistics.

The minimum level for capitalisation of property, plant and equipment is £500. All non-property operational assets are stated at fair value on the basis of their existing use.

1.3 Intangible assets

Intangible 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 between three and seven years. The minimum level for capitalisation of an intangible asset is £500. These assets have been restated using valuation indices produced by the Office for National Statistics.

1.4 Depreciation

Depreciation is provided at rates calculated to write-off the valuation of property, plant and equipment by equal instalments over their estimated useful lives. Asset lives are normally in the following ranges:

Information Technology	3 to 7 years
Furniture	5 to 20 years

The building is depreciated over a 35 year estimated useful life. Land is not depreciated.

Where events have arisen which reduce the recoverable amount of any non-current asset below its carrying amount, an impairment loss is recognised.

1.5 Inventory and work in progress

Inventory consists of work in progress which is valued at the lower of cost, including appropriate overheads, and net realisable value.

1.6 Operating income

Operating income is income which relates directly to the operating activities of the Office. 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. It includes not only income appropriated in aid of the Estimate but also income to the Consolidated Fund, which in accordance with the FReM is treated as operating income. Operating income is stated net of Value Added Tax.

1.7 Pensions

Past and present 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. The Office 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 the PCSPS (NI). In respect of defined contribution schemes, the Office recognises the contribution payable for the year.

1.8 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 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.

1.9 Other provisions

The Northern Ireland Audit Office provides for legal or constructive obligations which are of uncertain timing or amount at the reporting date on the basis of the best estimate of the expenditure required to settle the obligation.

1.10 Value Added Tax

Income and expenditure in the account is stated exclusive of irrecoverable Value Added Tax (VAT). The Office can recover VAT at a partial exemption rate. For 2015-16 this was at a rate of 5 per cent (5 per cent in 2014-15) based on the percentage of business income over total income.

1.11 Staff costs

Under IAS 19 Employee Benefits, all staff costs must be recorded as an expense as soon as the organisation is obligated to pay them. This includes the cost of any untaken leave as at the year end.

1.12 Financial instruments

The Northern Ireland Audit Office does not hold any complex financial instruments. The only financial instruments included in the accounts are receivables and payables. Trade receivables are recognised initially at fair value less provision for impairment. A provision for impairment is made when there is evidence that the Office will be unable to collect an amount due in accordance with agreed terms.

1.13 Impending application of newly issued accounting standards not yet effective

The Office has reviewed new accounting standards that have been issued but are not yet effective, nor adopted early for these accounts. The Office considers that these are unlikely to have a significant impact on the accounts in the period of initial application.

2. Statement of Operating Costs by Operating Segment

NIAO's operating segments reflect the activities undertaken to achieve the business objectives.

	2015-16			2014-15		
	Gross Expenditure £'000	Income £'000	Net Expenditure £'000	Gross Expenditure £'000	Income £'000	Net Expenditure £'000
Financial Audit	6,562	2,353	4,209	6,176	2,290	3,886
Public Reporting	2,480	-	2,480	2,725	-	2,725
Governance and Fraud Prevention and Detection	669	14	655	930	246	684
Support to the NI Assembly and the public	1,104	139	965	713	118	595
Comptroller Function	16	-	16	12	-	12
Total	10,831	2,506	8,325	10,556	2,654	7,902

Financial Audit - Forming an opinion on financial statements; assessing whether expenditure is regular and in accordance with the intentions of the Assembly when it granted the money; and providing assurance on the Accounting Officers' Governance Statement.

Public Reporting - Independently examining and reporting to the Northern Ireland Assembly on whether public bodies spend taxpayers' money economically, efficiently and effectively. Audit, assessment and reporting on local councils' performance improvement responsibilities. Providing public bodies with constructive advice in the form of good practice reports across a range of areas.

Governance and Fraud Prevention and Detection - Helping public bodies improve their corporate governance, financial control and risk management arrangements, and assisting in the prevention and detection of fraud by conducting and reporting on data matching exercises.

Support to the Northern Ireland Assembly and the public - Working closely with the Public Accounts Committee on evidence sessions based on our reports; providing support to Departmental committees; and responding to enquiries from elected representatives and citizens.

Comptroller Function - Authorising the issue of public funds from the Consolidated Fund for Northern Ireland.

3. Staff Costs

	2015-16 £'000	2014-15 £'000
Wages and Salaries	5,492	5,746
Social Security Costs	494	507
Other Pension Costs	1,345	1,192
Total net costs	7,331	7,445

A breakdown of the above costs into permanent staff and other can be found in the Staff Report within the Accountability Report.

4. Other Administration Costs

	Notes	2015-16		2014-15	
		£'000	£'000	£'000	£'000
Contracted Out Audits		1,251		1,292	
Accommodation		330		371	
National Fraud Initiative Costs		14		212	
Recruitment and training		135		130	
Consolidated Fund Standing Services (C&AG's salary)		196		194	
Office Supplies/Equipment		41		73	
Computer Services		409		335	
Travel and Subsistence		89		99	
Professional Services Bought In		29		66	
Other Indirect Costs		47		65	
Legal Fees		27		18	
Internal Auditors' Fees		30		31	
External Auditors' Fees - Audit		20		17	
External Auditor's Fees - Other		4		4	
Hospitality		–		1	
			2,622		2,908
Voluntary Exit Costs			677		–
			3,299		2,908
Non- cash items					
Depreciation	6,7	199		202	
Provision provided for in year	11	–		1	
Provision not required written back	11	–		(2)	
Notional Costs		2		2	
			201		203
Total			3,500		3,111

During the year the Office purchased the following non-audit services from its auditor, Baker Tilly Mooney Moore:

Validation of Impacts of the Northern Ireland Audit Office, £4,000 (2014-15: £4,000).

5. Operating Income

	2015-16 £'000	2014-15 £'000
Income from NAO	459	363
Other Audit Fees	1,893	1,927
NFI Receipts	14	246
Other Income	140	118
Total	2,506	2,654

6. Property, plant and equipment

2015-16

	Land £'000	Buildings £'000	Information Technology £'000	Furniture and Fittings £'000	Total £'000
Cost or Valuation					
At 1 April 2015	350	2,850	110	176	3,486
Additions	–	18	3	–	21
Disposals	–	–	(45)	(2)	(47)
Revaluations	–	–	–	1	1
At 31 March 2016	350	2,868	68	175	3,461
Depreciation					
At 1 April 2015	–	–	83	126	209
Charged in year	–	133	15	15	163
Disposals	–	–	(45)	(2)	(47)
Revaluations	–	(131)	–	1	(130)
At 31 March 2016	–	2	53	140	195
Carrying amount at 31 March 2015	350	2,850	27	50	3,277
Carrying amount at 31 March 2016	350	2,866	15	35	3,266

All assets at 31 March 2016 are owned by NIAO.

Details of the basis of valuation can be found in Note 1.2 to the Accounts.

2014-15

	Land £'000	Buildings £'000	Information Technology £'000	Furniture and Fittings £'000	Total £'000
Cost or Valuation					
At 1 April 2014	350	2,850	154	186	3,540
Additions	–	–	9	–	9
Disposals	–	–	(54)	(10)	(64)
Revaluations	–	–	1	–	1
At 31 March 2015	350	2,850	110	176	3,486
Depreciation					
At 1 April 2014	–	–	121	121	242
Charged in year	–	128	16	15	159
Disposals	–	–	(54)	(10)	(64)
Revaluations	–	(128)	–	–	(128)
At 31 March 2015	–	–	83	126	209
Carrying amount at 31 March 2014	350	2,850	33	65	3,298
Carrying amount at 31 March 2015	350	2,850	27	50	3,277

All assets at 31 March 2015 were owned by NIAO.

Details of the basis of valuation can be found in Note 1.2 to the Accounts.

7. Intangible Assets

2015-16

	Software Licences £'000
Cost or valuation	
At 1 April 2015	206
Additions	15
Disposals	(4)
Revaluations	–
At 31 March 2016	217
Depreciation	
At 1 April 2015	95
Charged in year	36
Disposals	(4)
Revaluations	–
At 31 March 2016	127
Carrying amount at 31 March 2015	111
Carrying amount at 31 March 2016	90

All assets at 31 March 2016 are owned by NIAO.

Details of the basis of valuation can be found in Note 1.3 to the Accounts.

2014-15

	Software Licences £'000
Cost or valuation	
At 1 April 2014	258
Additions	28
Disposals	(81)
Revaluations	1
At 31 March 2015	206
Depreciation	
At 1 April 2014	132
Charged in year	43
Disposals	(81)
Revaluations	1
At 31 March 2015	95
Carrying amount at 31 March 2014	126
Carrying amount at 31 March 2015	111

All assets at 31 March 2015 were owned by NIAO.

Details of the basis of valuation can be found in Note 1.3 to the Accounts.

8. Capital and other commitments

8.1 Capital Commitments

At the reporting date the Office has no capital commitments.

8.2 Commitments under leases

The Office has no commitments under operating leases and holds no finance leases.

8.3 Other Financial Commitments

The Office has no other financial commitments as at 31 March 2016.

9. Financial Instruments

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

10. Cash and cash equivalents

	2015-16 £'000	2014-15 £'000
Balance at 1 April	261	226
Net change in cash and cash equivalent balances	126	35
Balance 31 March*	387	261

*The above balance is held at a commercial bank.

11. Trade payables and other current liabilities

	2015-16 £'000	2014-15 £'000
Amounts falling due within one year		
VAT	83	52
Trade payables and Accruals	295	205
Employee benefits accrual	163	285
	<u>541</u>	<u>542</u>
Voluntary Exit Scheme	348	–
	<u>889</u>	<u>542</u>
Total excluding amounts due to the Consolidated Fund	889	542
Amounts issued from the Consolidated Fund for supply but not spent at year end	386	261
Consolidated Fund extra receipts due to be paid to the Consolidated Fund:		
Received	1	–
Receivable	107	31
	<u>1,383</u>	<u>834</u>
Sub Total	1,383	834
Other payables: capital creditor	5	9
Total	1,388	843

There are no amounts falling due after more than one year.

12. Provisions for Liabilities and Charges

	2015-16			2014-15		
	Early departure costs	Other	Total	Early departure costs	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April	119	-	119	194	2	196
Provided in the year	-	-	-	1	-	1
Provisions not required and written back	-	-	-	-	(2)	(2)
Provision utilised in the year	(63)	-	(63)	(76)	-	(76)
Balance at 31 March	56	-	56	119	-	119

Analysis of Expected Timings

	2015-16			2014-15		
	Early departure costs	Other	Total	Early departure costs	Other	Total
	£'000	£'000	£'000	£'000	£'000	£'000
Not later than one year	20	-	20	63	-	63
Later than one year and not later than five years	36	-	36	56	-	56
Balance at 31 March 2016	56	-	56	119	-	119

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.

13. Contingent Liabilities

The Office has not entered into any guarantees or indemnities or provided any letters of comfort.

14. Related Party Transactions

None of the NIAO Audit Committee, Advisory Group or Executive Team members 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 number of transactions with the Department of Finance.

15. Events after the reporting period

There were no reportable events between the end of the reporting period and the date the accounts were signed.

Date of authorisation for issue

The Comptroller and Auditor General authorised the issue of these financial statements on 24 June 2016.



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