

Northern Ireland Audit Office
Corporate Plan
2015-16 to 2017-18

Contents

Foreword

Part One Who we are and what we do

Part Two How we will do it

Part Three Our staff

Part Four What we will need

Appendix 1 How we will measure our performance

Foreword

On behalf of the Assembly's Audit Committee I am pleased to introduce the Northern Ireland Audit Office (NIAO) Corporate Plan for the period 2015-16 to 2017-18. The Plan defines the purpose of the NIAO and its three strategic aims. The plan sets out the activities of the NIAO over the corporate planning period, as well as detailing its financial requirements in relation to 2015-16 and a number of challenging targets which shall be used to measure performance.

There are a number of financial uncertainties in relation to the three year period which this plan covers. The implementation of the Stormont House Agreement and welfare reform will have an impact upon the funding available for public services. Moreover, there will continue to be significant budgetary pressures on the block grant, with the Office for Budget Responsibility projections suggesting that Northern Ireland could see its resource departmental expenditure limit fall by a further 13% in real terms by the end of the decade.

There has already been a real terms reduction to the resource budget for 2015-16. The Assembly has agreed the Executive's budget for this year, which prioritises the protection of key front-line public services; investments that underpin economic growth in Northern Ireland; and putting in place the foundations for the reform and restructuring of our public sector. In doing so, however, cuts inevitably must be made elsewhere. That reality informs this Corporate Plan.

The NIAO has made significant savings in recent years. However, in light of the ongoing severe pressures on public spending, the Audit Committee believes that the NIAO must continue to pursue efficiencies and cost reductions wherever possible. This includes through restructuring and through reducing its permanent staff numbers. The Corporate Plan reflects this position.

Despite these reductions and uncertainties the important work of the Audit Office must continue. The plan therefore sets out how the NIAO will encourage and support best practice in financial management; promote the proper conduct of public business; and promote improvement in the efficiency and quality of services provided to the public.

The Committee accepts that the reduction to the NIAO's budget will present challenges both in terms of achieving the cost reductions and delivering its services. These are challenges that are being faced right across the public sector. The Committee is confident that the NIAO can meet these challenges.

Danny Kinahan MLA

Chairperson of the Audit Committee

Part One – Who we are and what we do

Introduction

- 1.1 Under the Audit (Northern Ireland) Order 1987, the Comptroller and Auditor General (C&AG) is head of the Northern Ireland Audit Office (NIAO or Office) and a corporation sole. He has primacy in determining the strategic direction, governance, staffing and structure of the NIAO.
- 1.2 His direction for the three year period commencing 2015-16 is set out in this Corporate Plan which outlines the Office's strategic aims and plans and underpins our resource estimate for 2015-16. This Corporate Plan identifies key challenges and opportunities, and prioritises those areas of activity on which we will focus our attention over the planning period.

About the NIAO

Our Purpose

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.

- 1.3 The NIAO is a public sector body but totally independent of government. Its role is, through its financial and value for money work, to hold public bodies to account for the way they spend public money. It does this by providing objective information, advice and assurance on how public funds have been used and encouraging best practice in financial management, good governance and propriety in the conduct of public business.
- 1.4 The C&AG is the external auditor of Northern Ireland departments, executive agencies and other central government bodies, including non-departmental public bodies (NDPBs) and health and social care bodies. The C&AG reports the results of his work to the Northern Ireland Assembly. In addition, a senior member of NIAO staff is designated as the Local Government Auditor responsible for the audit of Northern Ireland's councils and associated local government bodies.
- 1.5 The main activities of the NIAO are set out in Figure 1.

Figure 1 - Main activities of the NIAO over the corporate planning period

Financial Audit	Forming an opinion on 600 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 and Investigation	Independently examining and producing some 60 reports to the Northern Ireland Assembly and Local Councils on economy, efficiency and effectiveness, performance improvement and issues arising from the audits of financial statements in central, health and local government.
Governance and Fraud Prevention and Detection	Providing audited bodies with constructive advice to help them 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 Assembly's Public Accounts Committee on evidence sessions based on our reports; providing support to departmental committees; and responding to enquiries from elected representatives, whistleblowers and disclosures from members of the public.
Comptroller function	Authorising the issue of some £50 billion of public funds from the Consolidated Fund for Northern Ireland.

1.6 Like the rest of the public sector, NIAO is facing unprecedented budget cuts. We consider that a position has now been reached whereby the service we can provide is likely to be adversely effected (Part 4 addresses our proposed resource requirements for the plan period).

1.7 Accordingly, a key theme of this plan is how, in a changing landscape, we can continue to deliver a high quality public audit service to the Northern Ireland Assembly and all other stakeholders. Our workforce planning indicates that we require some additional staff to continue to deliver the volume of work envisaged. However, we are conscious that this is a temporary spike mainly associated with the changes arising from the Review of Public Administration (see paragraph 1.13). In

the normal course of events we would, as a result of these changes, anticipate a significant reduction in staffing from 2018-19. However, given public finance constraints, the reality is that, from the first year of this plan, the Office will be required to deliver its functions within a much reduced budget and staffing complement. Therefore, we will have limited capacity, without reshaping and prioritising our programme of work, to absorb additional activity.

- 1.8 This pressure also comes at a time when public audit will have an important part to play as the public sector introduces and embeds new processes and systems. This is a critical time in which there is a significantly increased risk of control failures and hence potential exposure to fraud, impropriety and poor value for money. While we will seek to provide assurance and advice on how these arrangements are bedding in, this will be challenging in light of the significant constraints on our budget.

Our Strategic Aims

- 1.9 Underpinning our purpose of ***promoting better use of public money***, we have three strategic aims:

- 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.

- 1.10 In this plan, a focus is placed on the provision of core activities, comprising statutory financial audit and a programme of public reporting to support the Assembly's Public Accounts Committee. In delivering our core activities, we will endeavour, within the resources available to us, to continue to concentrate on these three key areas where, by utilising our skills, experience and independent perspective, we can add considerable value to the Northern Ireland public sector. Whilst these aims are predominantly outward-looking, we will also ensure that these are instilled in the operation of our own affairs.

- 1.11 We will seek to ensure that our work takes fully into consideration the Northern Ireland Executive's key priorities and will continue to align with the Executive's Programme for Government. This has underpinned a number of our reports in recent years and will continue to influence our VFM work programme (see Part 2).

- 1.12 In providing objective information, advice and assurance on how public funds have been used and encouraging high standards in financial management, good governance and propriety in the conduct of public business, we will also focus on maintaining our strong professional relationship with the Assembly, the Northern

Ireland Civil Service (NICS) and the wider public sector. However, the level of service we can provide will be significantly influenced by the resources made available to us.

1.13 The restructuring of public services directly impacts on the scope of our audit work. Reforms impacting on this planning period include:

(1) The implementation of the new 11 council model for local government from 1 April 2015. The Local Government Act (Northern Ireland) 2014 forms the legislative basis for the local government reform programme that will impact on every aspect of the operation of the councils including but not limited to:

- new governance arrangements for councils;
- a revised ethical standard regime;
- the transfer of certain functions from central government;
- a new council-led community planning process; and
- a new framework to support the continuous improvement in the performance and delivery of council services.

(2) The creation of a single Education and Library Authority to replace the five Education and Library Boards (ELBs) from 1 April 2015.

(3) The Executive's announcement, as part of the Stormont House Agreement, to reduce the number of departments from 12 to 9, in time for the 2016 Assembly election.

The impact of these reforms is set out in Part 2.

1.14 In implementing the strategic aims of this Plan, we will continue to ensure that the Office provides value for money by identifying quantifiable financial savings resulting from recommendations in our reports. In the period 2011-12 to 2013-14 we have achieved an average saving of £27.5 million a year, which represents around three times the net resource outturn of the Office. These savings are in addition to the other work done by the Office, such as providing assurance to the Assembly and promoting improvements in corporate governance and internal control, which are difficult to quantify.

Part Two - How we will do it

We will provide assurance to the Assembly on public sector accounts

- 2.1 We will continue to provide assurance to the Assembly on the annual accounts prepared by public sector bodies such as departments, agencies, health trusts and other NDPBs.
- 2.2 The projected number of central government accounts to be audited over the corporate plan period is shown in Figure 2.

Figure 2 - Number of Central Government Accounts audited

	2014-15	Plan Period ¹		
		2015-16	2016-17	2017-18
Resource Accounts	19	19	19	16
Executive Agencies	12	12	12	12
Health	25	25	25	25
Revenue	1	0	0	0
Other Statutory Certification, including NDPBs	84	80	76	76
On behalf of NAO	3	2	2	2
Whole of Government Accounts	1	1	1	1
Other	14	14	14	14
TOTAL	159	153	149	146

- 2.3 A decrease is projected across the plan period. However, the number of accounts to be audited is not the sole factor in determining the extent of resources required. Other factors include the size and complexity of accounts and the timing of the audits.

Challenges facing Financial Audit

- 2.4 A single Education and Library Authority replaces the five current Education and Library Boards from 1 April 2015. This new body will reduce the number of accounts to be audited and should lead to efficiency savings in the future. However, our experience of previous reorganisations suggests that the first two years audits of the

¹ Excludes legality and regularity work detailed in paragraphs 2.5 and 2.6

new Authority (which we will carry out in 2016-17 and 2017-18) are likely to require greater audit scrutiny as new governance frameworks mature. In addition, efficiency savings are also limited by the likelihood that each former board will retain its own accounting system, at least for the first few years.

- 2.5 In the previous corporate plan, we noted that we had undertaken voluntary audits under draft EU guidelines at the request of the Department of Agriculture and Rural Development (DARD). These audits focused on the legality and regularity of Single Farm Payments made by DARD. Within the current corporate planning period our audit of the funds paid under the European Agricultural Fund by DARD will now change to include the audit of the legality and regularity of all amounts paid. We are presently preparing for this new form of audit which will be carried out in accordance with European Guidelines, which are currently in draft form. The audit will be carried out as part of a consortium arrangement with our colleagues in the National Audit Office, Audit Scotland and the Wales Audit Office. The estimated resources, matched with income, for this work have been incorporated in this plan.
- 2.6 In addition, DARD will be introducing reforms under the Common Agricultural Policy. This will take the form of a suite of new schemes for distributing EU funds. We will be required to audit these new schemes under the process described above.

We will continue to provide a high quality local government audit service

- 2.7 As noted in Part 1, local government in Northern Ireland is under-going a significant transformation and the reform programme will impact on the work of the Local Government Auditor.
- 2.8 The Local Government Act (Northern Ireland) 2014 provides that the local Government Auditor will undertake a new additional external assurance role in establishing if a council has complied with the requirements of a new performance improvement framework. This will entail:
- undertaking improvement audits, to review whether councils have discharged their duties for publishing improvement plans and performance information;
 - carrying out improvement assessments, to determine whether councils are likely to comply with legal requirements to make arrangements to secure continuous improvement in the exercise of their function; and
 - reporting on improvement audit and assessment work.

- 2.9 In preparation for the new assurance role to be undertaken, the Local Government Auditor has established a team to manage and develop an audit approach and methodology².
- 2.10 Following local government elections in June 2014, eleven 'shadow' councils became operational. These 'shadow' councils are responsible for appointing senior staff, striking rates and approving business and financial plans for the new councils prior to the new councils taking on full powers and responsibilities in April 2015. We will audit financial statements of the Statutory Transition Committees³ and the shadow councils in 2015-16. The first year of the plan will therefore be a peak year in the number of financial statements to be audited by the Local Government Auditor.
- 2.11 Changes to the number of accounts are summarised in **Figure 3**. In the latter two years of the corporate plan period, this shows a marked reduction in the number of audit opinions that will be provided. Twenty two of the audits that will not be required in 2016-17 relate to the shadow councils and the statutory transition committees resulting in a small saving.
- 2.12 The significant reduction in councils as a result of this reform means there will be 15 less council audits. However, despite this reduction in the number of accounts, we do not anticipate audit resource savings in the relevant two planning years. This view is influenced by the challenges of transferring functions alongside the merging of new entities. As a result, we expect more challenging audits of a local government sector that will, in total, be responsible for an increased level of expenditure and income transactions. Our previous experience in similar public sector restructurings has shown that stable financial management, reporting and governance by new entities takes time. Therefore there tends to be a period of heightened audit risk, until new structures, practices and systems are in place, embedded and operating properly. Audit resource savings from council financial audits as a result of local government reform could be expected in the years following this corporate planning period.
- 2.13 Potential savings in our financial audits will be more than offset by our new responsibilities for auditing performance improvement planning which will mainly be effective from 2016-17. However, there is some early work to be done in 2015-16.

² This will be developed in accordance with the principles set out in the "Code of Audit Practice, in relation to the functions of local government auditors in their audit of Local Government Bodies in NI – March 2011" ..

³ Statutory Transition Committees existed during the period July 2013 to July 2014.

Figure 3 - Number of Local Government Audits

	2014-15	Plan Period		
		2015-16	2016-17	2017-18
District Councils	26	26		-
Other local government accounts	20	20	20 ¹	20 ¹
Statutory Transition Committees ²	11	11		
Shadow Councils ³	-	11		
New Councils			11	11
Total Audits	57	68	31 ¹	31 ¹
Performance Improvement Planning Reviews	-	-	11	11

¹The precise number of accounts is still to be confirmed as the future status of a further 14 committees (7 Peace III and 7 Regional Development Joint Committees) has still to be determined.

² Statutory Transition Committees existed during the period July 2013 to June 2014. These Committees gathered information, considered and advised on matters relevant to ensuring that new councils are able to adopt their full range of powers and functions from 1 April 2015.

³ In existence for 1 year, following which, they will disappear in 2016-17

As part of Public Reporting, we will undertake an annual programme of value for money work, provide quality support to the Public Accounts Committee and provide wider support to the work of the Assembly

2.14 In order to influence improvements in accountability and performance in the public sector, our reports need to be relevant, accessible and of a high quality. They need to take account both of the intelligence we assemble on the operations of departments and public bodies and of the priorities set by the Executive in its Programme for Government. A risk based approach helps ensure that our audit efforts are devoted to the areas, entities or themes of the highest importance.

2.15 Our balanced programme of studies 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.

- 2.16 Our future work programme will include a number of studies aiming to improve service delivery and help identify the scope for financial savings. For example, we are:
- examining the performance of training schemes supported by the Department of Employment and Learning in getting young people into sustainable employment;
 - reviewing delivery of area based planning in the education sector and its contribution to the achievement of sustainable schools; and
 - analysing the Northern Ireland Executive's Invest to Save initiative to determine the extent of savings generated through the scheme.
- 2.17 We also promote good practice. We have recently launched good practice guides and held conferences in conjunction with the Chief Executive's Forum aiming to improve how the public sector handles whistleblowing cases and manages conflicts of interest.
- 2.18 Our main engagement with the Assembly is through the support we provide to PAC. There are, however, opportunities for the Office to offer the perspectives of public sector audit to the wider Assembly, for example, through:
- secondments – a member of staff has been seconded to the Assembly's Public Finance Scrutiny Unit. This is the second time we have supported the Assembly on this basis and we anticipate that this will be a recurring arrangement; and
 - briefings for statutory departmental committees - over recent years, we have provided evidence to the majority of the committees.

We will continue to promote measures to prevent and detect fraud

- 2.19 Fraud remains a threat to public sector bodies, particularly so as difficult economic times continue. We help public bodies to develop and implement sound counter fraud strategies in order to meet this threat. One of the main ways we do this is by regular reporting to the Northern Ireland Assembly on fraud matters so that lessons can be learned and disseminated to the wider public sector.
- 2.20 A key focus for us in recent years has been in proactively preventing and detecting potential frauds through data matching exercises. Data matching involves comparing pieces of data or information held by one body against other records held by the same or another body. This allows potentially fraudulent claims and payments to be identified for investigation.

- 2.21 Since 2008 we have participated in the National Fraud Initiative (NFI), a biennial UK wide data matching exercise to combat fraud and error. The first three exercises in Northern Ireland have resulted in savings of almost £30 million. Our most recent report was on the outcome of the third exercise, published in June 2014. The fourth exercise is underway and we will report on the outcome of this in June 2016. We are confident that it will again generate significant savings for the public purse. We continue to encourage public sector bodies to embed the NFI into their core business and make it a key part of their counter fraud strategies.
- 2.22 We continue to extend the coverage of the NFI through implementation of our strategy for the development of the NFI in Northern Ireland. We have secured the participation of two major housing associations in the current exercise, and are continuing to seek the inclusion of utilities and non-domestic rates in future exercises.
- 2.23 Whistleblowing has a vital role in securing and maintaining standards in public life. The Comptroller and Auditor General and the Local Government Auditor are prescribed persons to whom protected disclosures can be made under Public Interest Disclosure legislation. Our website sets out a range of ways in which this may be done. We provide a route for those with information about wrongdoing to come forward and we take appropriate action in response to the information that we receive.
- 2.24 Whistleblowing continues to have a high profile in the media and much remains to be done to ensure whistleblowers are treated appropriately and in line with good practice. We have recently collaborated with the other UK public audit agencies to publish a good practice guide to whistleblowing for public sector employers and workers. This is available on our website.

How we will prepare for these challenges and improve how we work

- 2.25 The Office is progressing a wide ranging change management programme, aimed at increasing the effectiveness of our audit through more proactive engagement with key stakeholders, greater cross-organisational working, and further developing and empowering staff. This programme will be delivered within the timescale covered by this Corporate Plan.
- 2.26 In planning and managing its business, the Office adopts a balanced scorecard approach, comprising four elements that are inter-related and equally important. The change programme is aligned with these as follows:

Figure 4 - Change management

<p>Delivery Greater focus on delivery of corporate priorities through improved resource planning and enhanced flexibility of staff.</p>	<p>Quality Audit approach better informed and directed through enhanced knowledge of key risks/issues facing client bodies. Encouraging and enabling innovation.</p>
<p>Stakeholders Enhanced client focus and added value recommendations from our audit work. Enhanced assurance to PAC and wider Assembly.</p>	<p>People Improved opportunities for job enrichment and career development. Enhanced sense of belonging through shared responsibility for delivery of corporate and cluster objectives. Greater autonomy and empowerment in operational management.</p>

- 2.27 While the current financial position is not the instigator or driving force in determining the need for organisational change, it does bring urgency to the situation and reinforces the need for change in how we use our resources to deliver audit services to our stakeholders.
- 2.28 A key element of the programme is restructuring the Office based upon four clusters, three of which are client focused and have joint responsibility for financial audit and public reporting, and the fourth is responsible for corporate support. This multi-disciplinary format has been developed to:
- drive forward a “One Office” concept with shared objectives for both financial and public reporting work;
 - enhance flexibility, help balance workflow and meet peaks in activity;
 - create a strong client focus;
 - increase opportunities for staff and career development as well as providing opportunities for job enrichment and enhancing succession planning; and
 - deliver greater autonomy and empowerment.

Demonstrating our performance

2.29 We have measures which assist in demonstrating our productivity, quality of work and achievements in reducing costs. Performance achieved against the key measures

is disclosed each year in our Annual Report and Accounts. Our performance measures are set out in Appendix 1.

- 2.30 It is important that the Office should keep its performance measures under regular scrutiny to ensure that they remain challenging and appropriately focused, cover all aspects of the business and, when taken together, are balanced. As part of our Change Management Programme we are reviewing our key performance indicators. This initiative has identified the need to gain further feedback on our performance from external stakeholders and we are actively considering how best to take this forward in the context of our budget settlement. However, we would also highlight that in the absence of a definitive three year budget it is extremely difficult to set output targets for the full period and we may need to re-prioritise our targets in light of this.

Part Three - Our staff

How we will develop our staff

- 3.1 This Office currently employs an average full time equivalent of 131 staff (excluding temporary appointments). The change management programme, as set out in Part 2, will play an important part in the development of staff. Two of its key underpinning principles are:
- job enrichment, career development and succession planning; and
 - autonomy, empowerment and enhanced decision making.
- 3.2 Learning and development is vital to the success of the Office. It is through having the requisite knowledge, skills and experience, underpinned by appropriate training, that we are able to secure the delivery of our aims and objectives, and ensure the continued provision of quality and cost-effective audit services to the Assembly, audited bodies and other stakeholders.
- 3.3 The Office consistently delivers a broad programme of work and during the Corporate Plan period we will seek, within the resources available, to sustain and enhance the quality public audit service we provide. In securing this, our learning and development programme will be pivotal, ranging from technical training, including providing staff with the relevant knowledge and skills to work flexibly across audit disciplines, and continuing to roll out our comprehensive leadership and management training programme to assist in developing performance and helping to build the confidence and skills to meet the challenges ahead.
- 3.4 Over 70 per cent of our staff are qualified and trainee accountants, and others are qualified in other relevant disciplines. Given the current financial position, we have had to place on hold recruitment to our Graduate Trainee Accountant Scheme and our Placement Student Scheme which offered a one year placement to a small number of students studying for a degree in Accounting, Business Studies Finance or Economics.
- 3.5 We carry out an annual workforce planning exercise to forecast the Office's resource requirements for the next three year period. Based on the most recent exercise, which highlights excess capacity particularly in management grades, the Office has identified the need to restructure. It is proceeding with a Voluntary Exit Scheme (see Part 4).

Meeting our obligations under equality legislation

3.6 Section 75 of the Northern Ireland Act 1998 requires NIAO, in carrying out its functions, to have due regard to the need to promote equality of opportunity between:

- persons of different religious belief, political opinion, racial group, age, marital status or sexual orientation;
- men and women generally;
- persons with a disability and persons without; and
- persons with a dependant and persons without.

The NIAO must also have due regard to the desirability of promoting good relations between persons of different religious belief, political opinion or racial group.

3.7 The NIAO Equality Scheme, approved by the Equality Commission in November 2011, sets out how the NIAO intends to fulfil these requirements.

3.8 We will continuously monitor our approach to equality. We are committed to operating open and transparent policies that promote healthy working relationships and ensure we are compliant at all times with the relevant legislation.

Part Four - What we will need

We will focus on quality service and priority outputs over the plan period

- 4.1 Parts 1 and 2 of this plan set out our aims, priorities and outputs for the next three year period. These have been set within the context of the changing public sector landscape, the current fiscal environment and the challenges that public sector bodies face.
- 4.2 Our Estimate provision for 2014-15⁴ is 14.5 per cent in cash terms and almost 25 per cent, in real terms, lower than 2009-10. In delivering our planned programme of work, we will continue to pursue efficiencies and cost reductions wherever possible. However, we have reached a point where the potential for savings has significantly diminished. To live within budget we require access to additional funding to restructure the Office, as set out in paragraph 4.4.
- 4.3 A key component of our programme is the statutory financial audit of central and local government bodies, and review of police and local government performance. While we have statutory powers to undertake value for money examinations the extent of this work is discretionary. A key challenge will be balancing and prioritising our statutory financial audits and public reporting work within available resources to provide an acceptable level and quality of audit service to the Assembly, including support to the Public Accounts Committee. At the same time, we are fully aware of the importance of a properly resourced professional independent audit service in this period of significant change within the public sector, including substantial reductions to departmental budgets.
- 4.4 Some 70 per cent of the Office's expenditure comprises salaries. We project that natural turnover in permanent staff resources will be low over the planning period because of our age profile and prevailing market conditions – traditionally many of our staff moved into the wider public sector. To bring about future sustainable savings, restructuring of the Office will be required. Workforce planning, including benchmarking with other audit bodies, has indicated a need in particular to rationalise management. The only way this can be achieved realistically is through restructuring. Accordingly, we are proceeding with a Voluntary Exit Scheme (VES) closely based on that currently being taken forward in the Northern Ireland Civil Service. It is difficult to accurately predict the savings this will secure. There is significant uncertainty over, firstly, the access, in terms of timing and quantum, that the Office will have to the funding that the Executive has put in place for this purpose and, secondly, the uptake

⁴ This is based on the Main Estimate of £8,200,000. This figure was reduced to £8,100,000 in the Spring Supplementary Estimate.

by NIAO staff of the scheme. The Scheme will allow for the release of up to 10 per cent of permanent staff resources (9 to 13 FTE). It is expected that this level of reduction which is necessary to manage the Office's finances over this plan period will impact on our forward programme of work (see paragraph 4.6).

- 4.5 Outsourcing through contracting out financial audits to private sector firms and using temporary staff to meet peaks in workload has been an important component in resourcing our work, comprising around 14 per cent of our gross expenditure. In 2014-15, we introduced internal change to bring about greater flexibility and innovation in the use of permanent staff resources to meet business needs, and this has assisted the Office in reducing its requirement for temporary staff in 2015-16. It is planned that contracted out audits will be maintained at around the existing level to provide the necessary capacity to meet our statutory financial audit programme, but this will be reconsidered if sufficient savings are not realised through the Voluntary Exit Scheme. Should the Office reduce the level of expenditure in this area, the risk to the delivery of statutory financial audits would be significant, as the capacity to absorb these within remaining resources is likely to be limited. If the Voluntary Exit Scheme does not provide the savings required, the reduction of contracted out audits may commence in the second half of 2015-16, impacting on upwards of 25 audits, including the majority of health service accounts.
- 4.6 This planning period represents a period of significant uncertainty for the Office and the wider public sector. As set out in part 2, developments in our audit environment, such as the rationalisation of public sector entities reducing the number of accounts to be audited, will impact on the extent of audit work required, and in overall terms should bring about cost reductions in the operation of the Office. It is projected that these savings will not be realised within this planning period, and indeed a spike is expected to take on board local government performance improvement reviews, as explained in Part 2. However, given planned staff reductions in 2015-16 and continued budgetary pressures the Office will have to prioritise what it can deliver within available resources over the plan period. This may impact on the delivery of statutory obligations, and the scope and quality of audit service to the Assembly over the plan period.
- 4.7 The Net Resource Requirement for 2015-16 is addressed below. Given the uncertainties applying to finances in this year, it is difficult to forecast the financial requirements for 2016-17 and 2017-18. For the purposes of this plan, the forecast financial provision for 2015-16 has been rolled forward for these two years. A detailed analysis of 2016-17 and 2017-18 will be carried out in the next planning round.

Financial Requirements – 2015-16 Resources

4.8 On 19 January 2015, the Executive published its Budget for 2015-16 providing the NIAO with a resource budget of £7,875,000. This equates to an Estimate Net Resource Requirement (NRR) of £7,686,000. A comparison with previous years' financial provision is shown in Figure 5.

Figure 5 – Comparison of previous annual financial provision with Executive Budget 2015-16

	2012-13 Main Estimate £'000	2013-14 Main Estimate £'000	2014-15 Main Estimate £'000	2015-16 Executive Budget (converted to NRR) £'000
Net Resource Requirement	8,414	8,327	8,200	7,686
Increase/(Decrease) in cash terms		(1.0%)	(1.5%)	(6.3%)
GDP deflator		2.12	1.7	1.4
Increase/(Decrease) in real terms		(3.1%)	(3.2%)	(7.6)

4.9 Having full regard to the Executive's Budget, the Office has carried out an in-depth examination of all areas of expenditure for further cost savings. In so doing, it recognised the need for short term expedients that would cut across the medium and longer term interests of the Office and value for money.

4.10 Based on the above examination, a forecast net resource requirement for 2015-16 of £7,986,000 has been projected, based on current staffing levels. This is £300,000 more than available to the Office in the Executive's budget. To help bridge this gap, the Office is proceeding with a Voluntary Exit Scheme closely based on that of the Northern Ireland Civil Service. Should the Office not realise the extent of savings it requires from this scheme or other projected savings do not fully mature, the Office will be at risk of exceeding the Executive's budget.

4.11 A reconciliation between the projected Net Resource Requirement (the Estimate provision) and the Resource budget (the framework used by the Executive) for 2015-16 is set out in Figure 6.

Figure 6 – Reconciliation of projected Net Resource Requirement to the Executive Resource Budget

	2015-16 Forecast £'000
Projected net resource requirement (paragraph 4.10)	7,986
Deficit*	(300)
Net Resource Requirement (based on Executive's Budget)	7,686
Add Consolidated Fund Standing Services	194
Less Notional Charges	(5)
Resource Budget	7,875
Of which:	
Non-Ringfenced Resource DEL**	7,714
Ringfenced Resource DEL** (Depreciation)	225
Annually Managed Expenditure**	(64)

*See paragraph 4.10

**These amounts are not aligned with the figures in the Executive Budget which provides as follows:

- Non-ringfenced resource Del £7,550,000;
- Ringfenced resource DEL £325,000; and
- AME £nil.

Figure 6 aligns depreciation with NIAO's forecast depreciation for 2015-16, transferring the surplus to non-ringfenced DEL. A forecast figure of £64,000 relating to early retirements in previous years has also been included in non-ringfenced DEL, and AME.

4.12 The breakdown of the proposed resource requirement for 2015-16 is shown below.

Figure 7 – Proposed use of resources

	2014-15 Main Estimate £'000	2015-16 Forecast £'000	2016-17** Forecast £'000	2017-18** Forecast £'000
Staff	7,500	7,610		
Outsourced:				
Staff (temporary)	180	14		
Consultancy	45	20		
Contracted out audit	1,332	1,260		
General expenditure*	1,766	1,480		
Gross resource requirement	10,823	10,384		
Income	(2,623)	(2,398)		
Net resource requirement	8,200	7,986	7,986	7,986
Deficit	-	(300)	(300)	(300)
Net resource requirement based on Executive Budget	8,391	7,686	7,686	7,686

* General Expenditure in 2014-15 includes costs incurred in the National Fraud Initiative. This is carried out biennially and leads to some fluctuation in General Expenditure between years.

** 2015-16 forecasts have been rolled forward to these years (see paragraph 4.7).

- 4.13 Arising primarily from the need to address a pay progression issue, the Office introduced a new pay system (effective from 1 April 2013). The projected pay bill for 2015-16, based on current staffing levels, is the final year of a three year pay award. It includes an estimated £150,000 to cover increases in ASLC (superannuation) rates announced by the Department of Finance and Personnel in February 2015. We understand that the Office may have access to central funding in 2015-16 to alleviate this increase, but due to the uncertainty around this, it has not been factored into our projections.
- 4.14 The use of temporary staff primarily to assist in peak periods of financial audit work will be significantly reduced in 2015-16. This will be delivered through greater flexibility and innovation in the use of permanent staff resources. Consultancy will be minimised as far as possible. The extent of work contracted out to the private sector will remain broadly in line with previous years assuming access to the funding required for a Voluntary Exit Scheme. The reduction in forecast expenditure between 2014-15 and 2015-16 arises primarily from efficiencies in retendering. As

addressed in paragraph 4.5, if the Office should have to make further cost reductions to manage within available financial resources, it would consider this area of expenditure. However, this would be a matter of last resort given its potential to significantly impact on the Office's ability to deliver its statutory audits.

- 4.15 General expenditure covers all other costs such as staff training, IT, travel and subsistence, accommodation including rates, and governance arrangements. These have all been individually examined and pared back as far as is possible. For example, the training budget has been significantly reduced. As a professional office, it is important that we equip staff with the skills and knowledge they require to perform their duties, and therefore this low level of funding is unlikely to be sustainable in the medium term.
- 4.16 Adjustments to income in the plan period will be based on the recovery of costs on:
- additional European Agricultural Legality and regularity work (paragraph 2.5);
 - additional local government audit work, all of which is chargeable (paragraphs 2.7 to 2.13); and
 - NFI in 2016-17 (paragraph 2.21).

Resource Requirements - Capital

Information Technology

- 4.17 While retaining responsibility for having appropriate IT arrangements in place to support its business, the Office outsourced its IT provision to IT Assist in 2013, a public sector shared service. This means that the core ICT infrastructure of the Office is provided by IT Assist through the nigov⁵ network, covering standard network services including office automation through Microsoft packages, email, and internet. We retain full responsibility for line of business applications specific to NIAO such as audit automation software. These are hosted by IT Assist on its servers.
- 4.18 The Office's IT strategy over this plan period will focus on consolidation and determining how best we can use our line of business applications to support the business and staff in the delivery of our objectives. To enhance operational efficiency and effectiveness, we will continue to introduce, update and replace line of business software, and a limited amount of IT hardware which falls outside IT Assist's responsibility.

⁵ Nigov is the Northern Ireland Civil Service Wide Area Network (WAN)

Accommodation

4.19 The Office is exploring the potential to carry out some minor structural work to its premises in University Street, Belfast, to provide changes to its layout to maximise the benefits from restructuring. It is premature to include this in our forecasts but we may wish to seek additional funding in due course.

4.20 In summary we forecast that our total capital expenditure incorporating both IT and Accommodation will be as shown in Figure 8 below.

Figure 8 - Proposed Total Capital Expenditure

	2014-15 Forecast £'000	Plan Period		
		2015-16 Forecast £'000	2016-17 Forecast £'000	2017-18 Forecast £'000
Total capital expenditure	40	40	40	40

Appendix 1 - How we will measure our performance

We have set a number of challenging performance targets which we monitor and report on in our Annual Report. These measures include:

Ensuring ongoing efficiency in our work

Over the past five years, we have achieved significant efficiency savings. Our Estimate provision has reduced by 14.5% in cash terms and 25% allowing for inflation. Like other public bodies, the NIAO will face budget cuts in 2015-16 and beyond. We will 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.

Timeliness of our outputs

Over the period of the Corporate Plan, we intend to produce an average of at least 20 public reports per year.

In relation to our financial audit work we have a target to certify the accounts of at least 70 per cent of the audited bodies within seven months of their year end and 90 per cent within twelve months. In order for us to achieve this target the audits of almost all departments, agencies, larger non-departmental public bodies and councils must be completed within seven months and a large proportion of our other smaller audits with twelve months.

Our work is of the highest quality

We have a comprehensive quality control process based on International Standard on Quality Control (ISQC1). This Standard requires us to have detailed policies and procedures in a number of areas which include monitoring arrangements whereby 'cold reviews' are undertaken of our financial audit work. These 'cold reviews' are carried out by a number of audit teams, including teams from other public audit agencies, to ensure that our financial audit work has complied with our audit methodology and the underlying professional auditing standards. We require annual confirmation of our compliance.

In addition, we subject all of 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 these reports maintain an average quality review score of at least three, a sound professional product [in a range 0-5].