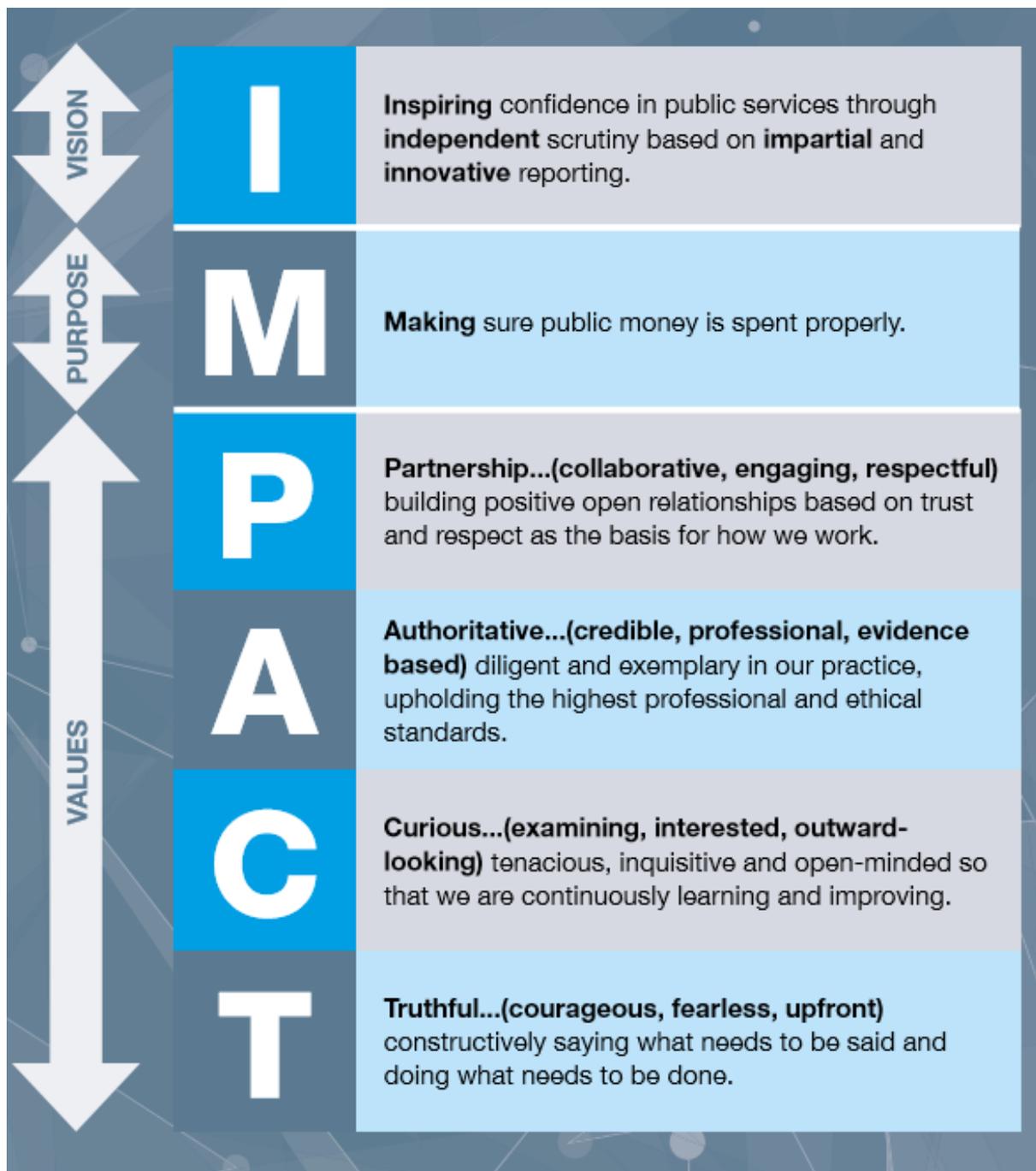




Northern Ireland Audit Office

# NIAO Transparency Report 2020-21



## Introduction

This report is designed to provide the reader with background information about the role of the Comptroller and Auditor General (C&AG), and the Northern Ireland Audit Office (NIAO / the Office) and the work that it undertakes. Unlike the private sector audit firms, there is no requirement for the Northern Ireland Audit Office to publish a transparency report however, as outlined in our values, 'we wish to build open positive relationships based on trust and respect'. We are committed, therefore, to demonstrating the principle of transparency in all that we do.

Part one of this report provides information about our role, our governance arrangements and the impact of our work.

Part two provides information relating to our audit independence and quality.

## Part One: About the NIAO

NIAO, through its financial and public reporting work, seeks 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 standards in financial management, good governance and propriety in the conduct of public business.

### Comptroller and Auditor General

The C&AG is head of the NIAO and a Crown appointment made on the nomination of the Northern Ireland Assembly (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. He 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. Both the C&AG and his staff are totally independent of government.

The C&AG's main duties are carried out on behalf of the Assembly and he works in close association with the Assembly's Public Accounts Committee (PAC). The PAC's investigations on Northern Ireland matters are based on the C&AG's reports and the C&AG takes into account any proposals from the Committee when he decides the programme of examinations his staff should undertake.

### Governance

The C&AG, as Accounting Officer for the NIAO, is accountable to the Assembly and the public for operating the NIAO and how the Office uses public money.

As a corporation sole and head of the NIAO, the C&AG has primacy in determining the strategy, staffing and structure of the Office and accordingly is responsible for designing and implementing internal governance arrangements to support him in the delivery of his functions. In fulfilling his role, he is supported by the Chief Operating Officer and Senior Management Team, an Advisory Board and its sub committees, and an internal audit service operating to Public Sector Internal Audit Standards.

The internal governance arrangements of the NIAO established by the C&AG are set out in Appendix one and 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 and the NIAO.

### Organisational Structure

The Office's structure comprises six directorates, all of which have a portfolio of operational audit work. One of the directorates also provides corporate support, covering activities such as HR, finance, ICT and accommodation. This structure is designed to:

- provide flexibility and agility to balance workflow and meet peaks in activity, and reduce reliance on temporary appointments;
- enhance knowledge and skills sharing;
- create a strong client focus;
- enhance team work and build stronger staff networks;
- provide opportunities for career development, as well as job enrichment; and

- provide autonomy in decision-making.

## Our role

The NIAO scrutinises public spending in Northern Ireland. Our audit remit covers both the central and local government sectors.

The C&AG is the external auditor of Northern Ireland departments, executive agencies and other central government bodies, including non-departmental public bodies and health and social care bodies. He has extensive rights of access to information held by a wide range of public sector organisations, and his inspection rights extend to the records of contractors and those who receive public money. The results of his work are reported to the Assembly.

In addition, a senior member of NIAO staff is designated as the local government auditor by the Department for Communities with the consent of the C&AG and, assisted by NIAO staff, is responsible for the audit of Northern Ireland's councils and associated local government bodies. The results of this work are reported to the Department for Communities.

By reporting the results of our audits to the Assembly, government departments and bodies are held to account for how they use public money, thereby safeguarding taxpayers' interests. Our work also aims to help public service managers improve performance and service provision.

Financial audit work undertaken by the Office comprises the audit of central and local government body accounts. We audit the financial statements of nearly all central government organisations, both their income and expenditure, and report on them to the Assembly. We also audit the financial statements for local government bodies in Northern Ireland. 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, where relevant, that the transactions underlying the financial statements are in line with the intentions of the Assembly and other authorities. Where there are significant issues arising, we make a report to the Assembly which can be considered by PAC. We inform the organisations we audit of issues we find during our work, giving our independent view on areas where the audited body could improve its governance, controls and financial management.

During 2020-21 we certified 124 central government accounts and 13 local government accounts.

In relation to public reporting, during 2020-21 we published ten Value for Money (VFM) Reports; one General Report (Local Government); and four Good Practice Guides, including a short guide on COVID-19 Fraud Risks. In addition, an overview of the NI Executive's response to the COVID-19 pandemic was published as well as guides which provide an overview of the work we complete for each department.

## Impact of our work

We have a responsibility to provide value for money on the services we provide to our stakeholders. One way in which we do this is by identifying the quantifiable financial impact of our work. In doing so, we recognise 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 2020-21, quantitative financial impacts of £60 million were achieved as a result of the work of the Office. This figure has been independently validated by the Office's External Auditor and represents 9.0 times the net resource outturn of the Office (2019-20: 9.0 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 year.

## Finances

The Audit (Northern Ireland) Order 1987 requires the C&AG to prepare a Supply Estimate each financial year. The Audit Committee of the Assembly examines our budget proposals, agrees the annual Supply Estimate with the C&AG, and lays the Supply Estimate before the Assembly for approval.

The Assembly Audit Committee approved the NIAO budget proposal for 2020-21 in February 2020. The Budget Act (Northern Ireland) 2020 was approved by the Assembly and enacted on 26<sup>th</sup> March 2020. The authorisations, appropriations and limits in this Act provided the authority for a Vote on Account to provide cash and resources for the initial months of the 2020-21 financial year.

While it would be normal for this to be followed by the 2020-21 Main Estimates and the associated Budget (No. 2) Act before the summer recess, the COVID-19 emergency and the unprecedented level of allocations which the Executive agreed in response, necessitated that the Budget (No. 2) Act instead authorise a further Vote on Account on 17<sup>th</sup> June 2020 to ensure continued access to cash and resources until the 2020-21 Main Estimate was laid. The 2020-21 Main Estimate, and the associated Budget (No.3) Act, was approved by the Assembly and enacted on 25<sup>th</sup> November 2020.

NIAO's activities are funded through direct funding from the Northern Ireland Consolidated Fund plus audit fees paid by some audited bodies and other miscellaneous income. Our full financial information, including a detailed remuneration and staff report, will be contained in our Annual Report and Resource Accounts 2020-21.

The NIAO budget proposal for 2021-22 was agreed by the Assembly Audit Committee in December 2021 and will be included in the 2021-22 Main Estimate when it is laid before the Assembly for approval.

## Part Two: Audit independence and quality

The quality of work of the NIAO is fundamental and therefore quality control is built into every aspect of it.

NIAO's quality control processes have been developed to meet the requirements of the International Standard on Quality Control (UK) (ISQC1), 'Quality Control for Firms That Perform Audits and Reviews of Financial Statements, And Other Assurance And Related Service Engagements'.

ISQC1 requirements are primarily relevant to NIAO's financial audit work. The NIAO 'Value for Money Standards' handbook applies to the Office's VFM work.

The NIAO's quality framework is set out in the policy document 'Quality Control in the Northern Ireland Audit Office'.

### Leadership

Ultimate responsibility for the NIAO's system of quality control rests with the C&AG. The Chief Operating officer is responsible for overseeing the design and implementation of quality assurance arrangements, and all staff have a responsibility to deliver quality audit work.

NIAO ensures that audit firms who support the Office by carrying out audit or other specific assignments on its behalf on a contractual basis also have policies in place in respect of ISQC 1 quality control arrangements.

### Independence

For our work to have the impact and influence required, we must uphold high ethical standards. This underlines the need for the C&AG's staff to be objective and impartial in all their work, including accurate, fair and balanced reporting.

NIAO expects staff to adhere to the relevant internal and external quality standards for its work. This includes International Standards on Auditing (ISAs) (UK), our VFM standards, professional ethics, and ISQC1. Ensuring compliance with the standards and for creating a culture of professionalism, rigour and openness to challenge is the responsibility of the compliance partner. The Chief Operating Officer is NIAO's compliance partner for central government work and the Comptroller and Auditor General is the compliance partner for local government work.

All staff undergo training to ensure that they understand the ethical and professional standards to which they must adhere. The NIAO Code of Conduct outlines the principles staff must observe in undertaking their NIAO audit work including:

- integrity;
- objectivity;
- professional competence and due care;
- confidentiality; and
- professional behaviour.

The Code of Conduct states that staff have a duty to declare any private interests relating to their public duties and to take steps to resolve conflicts arising in a way which protects the public interest.

All staff provide an annual Code of Conduct return confirming that they have understood and complied with the Code of Conduct provisions, declaring any external interests or activities which might potentially conflict with their position or work at NIAO.

There are strong safeguards against threats to our independence. The C&AG's independence is enshrined in statute and he is appointed to the vast majority of audits (including VFM) by statute.

Conflicts of interest can arise as a result of over-familiarity which can present a risk to compliance with ethical standards. NIAO has a policy of rotating staff between assignments to ensure that this does not arise. It is NIAO's policy for engagement directors and engagement managers to continue with a particular client, or for financial audit, a specific engagement to the fifth year of association (inclusive), unless there are any identified threats to their or the C&AG's objectivity or perceived loss of independence that cannot be properly mitigated. In years six and seven the presumption is that the engagement directors and engagement managers will be rotated due to the length of association alone, even if there are no other identified threats to objectivity or independence unless there are overriding operational reasons for them to remain in place. No engagement director or engagement manager will act as part of an audit team for a period of more than seven years. Once rotated, relevant individuals should have no further involvement in work relating to the body for five years. Where the role of engagement director is delegated the same rotation policy applies to the individual undertaking the role.

All other staff will be rotated regularly to ensure that they have experience within and across teams. No member of staff will work on a particular audit for a period of more than seven years. The timing of any staff rotation is always carefully considered to ensure that continuity to each assignment is maintained as much as possible. Any firms contracted to undertake financial audit work on behalf of NIAO also rotate staff in line with NIAO policy.

## Our people

The training and development of all staff is vital in maintaining and developing the required capabilities and competence necessary to undertake our work. The Office develops the capabilities and competence of its staff through a combination of structured and unstructured training, work experience and mentoring.

The NIAO's core skills is that of an auditing organisation. A large majority of staff are members of, or trainees with, the main accountancy institutes, allowing the NIAO to meet the professional standards required of all financial auditors. This base is supplemented by other staff with relevant professional skills and by contractual partnerships with private firms. Our trainee accountants follow clearly defined development paths to gain the necessary experience. The professional accountancy training for staff is supplemented by in-house training in both financial and VFM work.

All staff are expected to undertake continuing professional development (CPD) and to take responsibility for updating their knowledge as well as ensuring that they comply with the requirements of their respective professional institutes, where applicable. Audit staff are expected to attend technical update courses, as provided, and all staff are provided with an internal annual

training programme and a variety of external training courses to meet their CPD and to suit the competency requirements of their area of work.

Quality is at the centre of not only our recruitment procedures, but also is maintained through our learning and development strategy and our performance assessment system.

### Engagement performance

It is of the ultimate importance to the C&AG that all NIAO staff deliver a quality audit that complies with legal and regulatory requirements and professional standards. The NIAO has established procedures to ensure that audit engagements are performed to the standards expected. In financial audit this is through the Financial Audit Manual methodology and for VFM audit through the VFM Standards methodology.

### Public Reporting: Value for Money

The NIAO expects staff to adhere to internal quality standards set for VFM work. The NIAO's VFM Standards handbook sets out the main mandatory standards that all VFM studies must meet, together with guidance on current approaches to implementing the standards. It is supplemented by additional policy guidance relating to specific aspects of VFM work.

NIAO VFM studies are subjected to a range of formal internal quality assurance checks in order to maintain and improve the quality of the published reports.

### Financial Audit

NIAO's financial audit work complies with ISAs (UK). NIAO engages with the other UK public audit bodies and with private sector firms contracted to the NIAO. This helps to share good practice and learn from other practitioners.

NIAO's audit methodology is outlined in the Financial Audit Manual, the main reference source for audit policy and guidance. The manual is regularly updated. Financial audit work follows a standardised format. All financial audits are documented using a specifically tailored computer software package which provides standardisation of audit tests and working papers that reflect NIAO audit policy and methodology. It also records the timing and extent of internal review undertaken. This package, along with the Financial Audit Manual, supports our financial auditors in auditing in a professional, diligent and independent way.

### Internal review

Overall responsibility for the financial audit engagement performance rests with the assigned engagement director. Quality control is built into all stages of the financial audit to ensure that work is of high quality and that it complies with auditing standards. For the vast majority of audits, there are two review stages:

- first stage review - a review of all audit tests and working papers; and
- second-stage review – a second review to confirm that sufficient and appropriate audit evidence has been obtained to support the recommended audit opinion. This review focuses on the risks of material misstatement and key issues of judgement made by the team.

The Office has in place a process for delegating audits assessed as being lower risk and lower complexity. These audits have only one single stage combined review which covers all elements of both the standard first and second stage review. This is conducted by the delegated engagement director.

### Technical and Specialist advice

Where an engagement director identifies a significant matter that requires professional judgement, they may consult with peers and/or the Office's designated Technical Director before deciding the appropriate response. During the year a range of technical guidance was issued and a wide range of advice provided on key audit or accounting issues. In total, seventeen audits with significant matters of judgement were referred to the Technical Director during 2020-21. Arising from these, the C&AG's opinions on eight accounts were qualified (some accounts received more than one qualification) and a further two opinions were modified (but not qualified) as at 31 March 2020.

### Engagement Quality Control Review

A further peer review, an Engagement Quality Control Review (EQCR), may be completed by an independent director before certification. EQCRs focus on the key areas of professional judgement for those audits where there is a particular sensitivity or significant risk to the C&AG and to the NIAO, for example, if it is likely that the C&AG is likely to provide a qualified audit opinion or report on the accounts, or if the engagement director identifies that significant or difficult judgements have been made that affect the C&AG's audit opinion. Four financial audits were subject to EQCR in the period.

### Private firms undertaking financial audit work for the NIAO

In financial terms around 30 per cent of our financial audit work is contracted out to private sector firms. The quality of services offered by the firm is assessed as part of the tendering process and is a key factor in the contract award decision. Audit plans and audit findings are reviewed by the relevant NIAO audit team. The C&AG is responsible for signing the audit certificates for all contracted out audits. A detailed review of firm's working papers is conducted for those audits which are assessed to be of higher audit risk. Contractor engagement performance is assessed and audit teams regularly communicate with the firm's key audit team members regarding concerns or areas for improvement. In addition the Office's Financial Audit Contractor Liaison Director is responsible for ensuring that, where appropriate, further feedback on performance is discussed with the firm's Partner.

The office undertook a major procurement exercise in 2018 that resulted in the award of new contracts up to 2022-23 across a range of sectors. These new contracts require a different approach to contract management resulting in some changes to our current audit approach including the following:

- Key Performance Indicators (KPIs) have been developed for different stages of the audit process as well as additional sector specific KPI's;
- Each quarter, contractors will provide Performance Monitoring Reports to the NIAO Contract Manager summarising the contractor's performance against the KPI's;
- Contractors also attend Performance Review Meetings with the NIAO Contract Liaison Manager and Director following the March and September quarters; and
- A new process for determining when pre-certification file reviews are required.

## Quality Monitoring

### Public Reporting: Value for Money

After publication, NIAO's VFM reports are assessed by a panel of external specialists who rate the report on a number of areas including presentation, technical content and quality of recommendations. During 2020-21 the office published ten VFM Reports; one General Report (Local Government); and four Good Practice Guides, including a short guide on Covid-19 Fraud Risks. In addition, an overview of the NI Executive's response to the Covid-19 pandemic was published as well as guides which provide an overview of the work we complete for each department. Six reports were assessed by an external review panel and an average rating of 3.7 provided on a scale of 1 to 5, with 5 representing outstanding (2019-20: Average of 3.5).

The Office also undertakes an annual cold review programme comprising a sample of VFM examinations by independent internal review teams. The purpose of the reviews is to consider whether the study was properly planned and conducted in accordance with NIAO policies and quality standards for VFM work. A sample of two studies published in 2020-21 was selected. Overall, the reviews concluded that the reports were generally comprehensive, clearly written, logically structured, and overall were informative and persuasive. Areas highlighted for improvement by the independent internal review have been communicated to all staff.

### Financial Audit

The NIAO undertakes an annual financial audit quality assurance programme. Quality assurance reviews are completed after the audit has been certified and review teams are independent of the audit being reviewed, and include teams from other UK audit agencies. The sample of audits generally covers the work of all engagement directors annually and engagement managers on a rotational basis, including audit work contracted out to private sector firms.

NIAO's Technical Team coordinate the programme and communicate areas for improvement to all financial staff and, where appropriate, incorporate them into further guidance or training, or both. The findings are largely qualitative and show where audit quality has improved, as well as identifying areas to address.

A representative sample of eight audits, certified between September 2019 and October 2020, was independently reviewed in the programme. For the first time, two reviews were completed by ICAEW who have been appointed by the Office to provide external quality reviews of a sample of two audits on an annual basis. Four reviews were completed externally by teams from other UK public audit agencies, with two reviews completed by NIAO staff who were not involved in the audits which they reviewed.

In addition, two further reviews were undertaken on audits where the previous review had found that the audit opinion was at risk. These reviews only considered whether significant issues raised in the previous review had been adequately addressed and rectified in the subsequent year's audit. The outcome of these reviews concluded that the prior year significant issues had been fully or substantially addressed.

Six of the eight audit opinions were found to be appropriate, with only limited improvements required. However, in two cases reviewers concluded that while the audits were generally compliant

with ISAs (UK) and the Financial Audit Manual, there were a number of areas for improvements in the audit approach and/or the evidence obtained. The engagement director and manager for each of these audits has undertaken a root cause analysis of significant issues and identified actions to taken to address each. Training and guidance subsequently provided should address these issues.

Areas for improvement identified through these reviews have been communicated in a guidance paper, and all financial audit staff have been given time to consider in detail and action matters arising within their audit files. In addition, audit managers have been asked to discuss recommendations and guidance included in this paper with their audit teams.

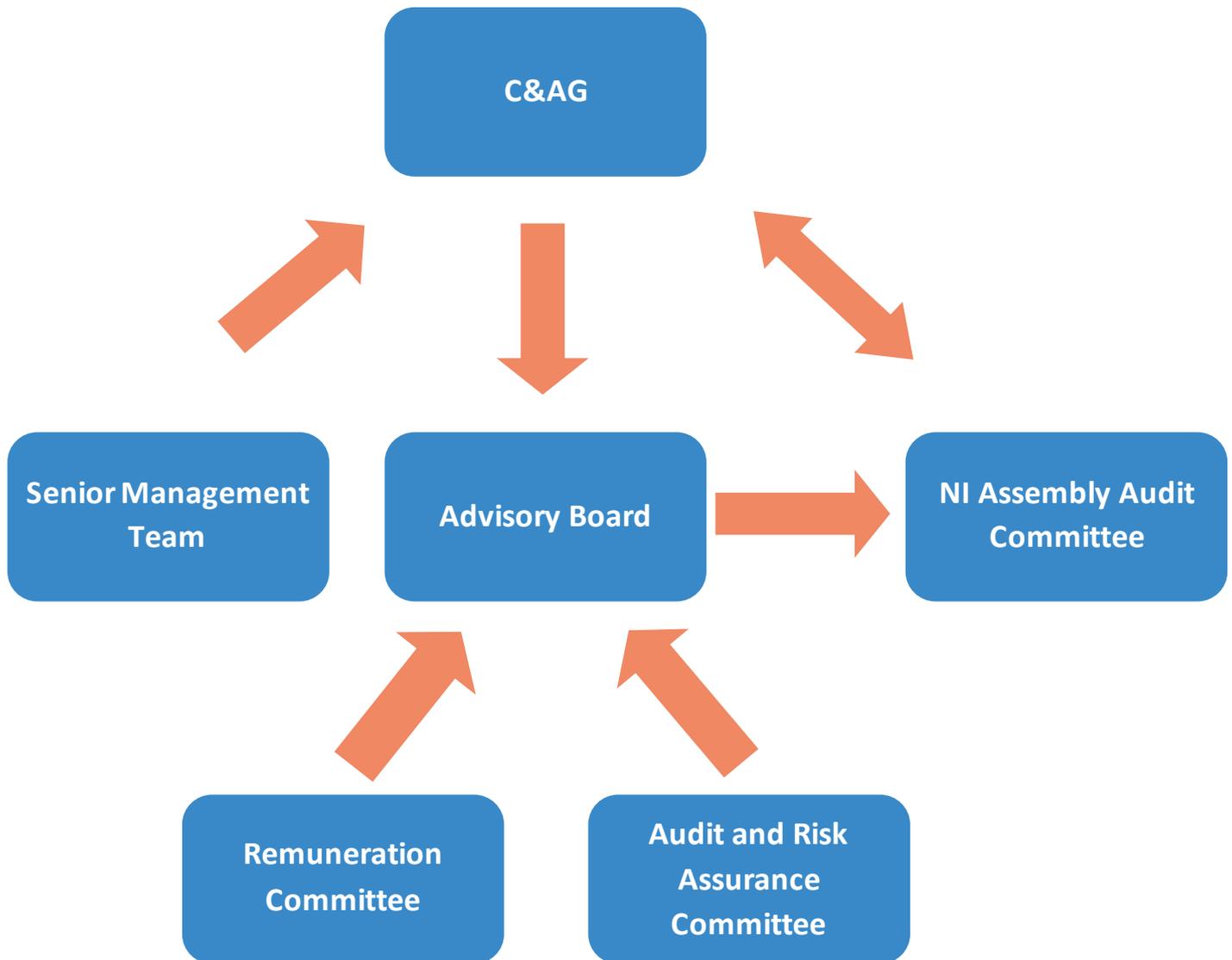
**NIAO**

**May 2021**

## Appendix One

### NIAO Internal Governance Arrangements

The Office's internal governance framework is illustrated below.



## **Senior Management Team**

The Senior Management Team (SMT), comprises the C&AG (chair), Chief Operating Officer and six directors. It is responsible for the strategic and operational leadership of the Office. Subject to the C&AG's 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 NIAO. The business of the team covers the five key areas of strategic clarity, commercial sense, talented people, results focus and management information.

## **Advisory Board**

The Advisory Board comprises both executives (C&AG and Chief Operating Officer (COO)) and non-executive members, the latter bringing an independent and external perspective to the work of the Board. Its key role is to provide objective and impartial advice to the C&AG and to assist him in the discharge of his functions. The Board scrutinises the work of the NIAO in the five areas of strategic clarity, commercial sense, talented people, results focus and management information. It also scrutinises and advises on Office finances on an ongoing basis.

## **NIAO Audit and Risk Assurance Committee**

In addition the Advisory Board, through its Audit and Risk Assurance sub-committee comprising only Non-Executive members, supports the C&AG as Accounting Officer by reviewing the comprehensiveness of assurances on systems of internal control, risk management and corporate governance. It also supports and advises the C&AG on the planned activity and results of both internal audit and external audit and the adequacy of management's response to issues identified by audit activity, including external audit's management letter.

## **Remuneration Committee**

The Remuneration Committee comprises all non-executive Board members of NIAO and supports the Board in advising on issues including terms and conditions of employment, job descriptions, pay settlements and succession planning. It may also advise on issues relating to structural change exercises such as organisational development, job evaluation and role reviews.