



Northern Ireland Audit Office

# Northern Ireland Audit Office Corporate Plan 2013-14 to 2015-16





# Contents

<b>Foreword</b>		<b>1</b>
<b>Part One</b>	<b>Who we are</b>	<b>3</b>
<b>Part Two</b>	<b>What we will do</b>	<b>8</b>
<b>Part Three</b>	<b>How we will do it</b>	<b>10</b>
<b>Part Four</b>	<b>Our staff</b>	<b>15</b>
<b>Part Five</b>	<b>What we will need</b>	<b>16</b>
<b>Appendix 1</b>	<b>How we will measure our performance</b>	<b>19</b>



# Audit Committee Foreword to the Northern Ireland Audit Office's Corporate Plan 2013-14 to 2015-16

On behalf of the Northern Ireland Assembly's Audit Committee, I am pleased to present the Corporate Plan 2013-14 to 2015-16 for the Northern Ireland Audit Office (NIAO). The plan sets out the key strategic aims of the NIAO during this period, as well as setting out how those strategic aims will be delivered, what resources will be needed and what the key performance measures will be. The Audit Committee has considered the plan and has endorsed it.

The plan sets out the purpose of the NIAO as being to promote better use of public money through independent professional scrutiny underpinned by its commitment to integrity, equality, openness and innovation to make a difference for the people of Northern Ireland. The Audit Committee wholly supports this definition of the NIAO's purpose.

The current financial climate remains challenging as the reduction in the money available for public expenditure in Northern Ireland continues. The Assembly wants the public funds that are available to be spent wisely and it must be able to hold to account those public bodies that have this task.

The work of the NIAO allows the Assembly to be provided with an effective and truly independent audit assurance in relation to the use of public funds. The plan sets out how the NIAO, as the Northern Ireland public sector auditor, will hold public bodies to account for the way they use public money. It shows how the NIAO will undertake its core activities of financial and value for money audit. The NIAO will, in each year of the plan, conduct audits of over 200 public sector accounts. It will undertake 11 value for money examinations. This work is of crucial importance to the Assembly and, in particular, to the Public Accounts Committee which works closely with the NIAO examining whether public bodies have spent taxpayers' money economically, efficiently and effectively.

Of course the NIAO does not just have a role to play in ensuring that other public bodies use public funds appropriately, it also has a duty to ensure that it too operates in accordance with best practice and provides the public with value for money. The Committee therefore welcomes the recognition in the plan that the NIAO must itself maintain the highest standards of propriety and regularity, and promote and secure value for money in its use of public funds, while producing quality, value adding pieces of work.

The NIAO has already secured significant efficiencies and cost reductions in recent years and it has done this without compromising either the quality or scope of its work. This plan anticipates a further decrease in cash terms in the NIAO's net resource requirement during each of the first two years of the plan. This is followed by an increase in the third year of the plan.

The Audit Committee is committed to ensuring that the NIAO has the resources necessary in order to ensure that the Assembly is provided with an effective and truly independent audit assurance in relation to public funds. However, it is also important that this should be done in as efficient a manner as is possible. The Audit Committee will continue to consider on an annual basis the NIAO's resource requirement.

The Audit Committee endorses the NIAO's Corporate Plan 2013-14 to 2015-16 and looks forward to the continuing valuable support that the NIAO provides to the Assembly.

**Danny Kinahan**

Chairperson of the Audit Committee



# Part One: Who we are

## Introduction

1.1 This Corporate Plan for the Northern Ireland Audit Office (NIAO or the Office) covers the three years from 2013-14 to 2015-16. The Plan sets out the Office's strategic aims and forward plans and will also be used to underpin the Office's resource estimate in 2013-14.

## About the NIAO

1.2 The NIAO, which is totally independent of government, seeks to hold public bodies to account for the way they use public money. We provide objective information, advice and assurance on how public funds have been used and encourage high standards in financial management, good governance and propriety in the conduct of public business.

1.3 The NIAO is headed by the Comptroller and Auditor General for Northern Ireland (C&AG), an Officer of the Northern Ireland Assembly (the Assembly). The C&AG and his staff (currently 134 full time equivalent) are the external auditors of all Northern Ireland Departments, executive agencies and other central government bodies, including non departmental public bodies and health and social care bodies. In addition, a senior member of staff of the Office has been designated as the Chief Local Government Auditor and is responsible for the audit of councils and other local government bodies.

1.4 The Office's governance arrangements, which were reviewed and revised in 2011, comprise:

- an Advisory Board, providing objective and impartial advice to the C&AG in the discharge of his statutory duties, and composed of executive and non-executive members;
- an Audit Committee, consisting solely of non-executive members;
- an Executive Team, comprising the C&AG and Assistant Auditors General (heads of the Office's three Divisions (financial audit, value for money and corporate services)) and responsible for the running of the Office; and
- a Directorate Forum, comprising senior management, focusing on corporate matters of strategic importance to the Office and meriting in-depth consideration to inform strategic and/or operational direction.

1.5 As the Northern Ireland public sector auditor, we have to maintain the highest standards of propriety and regularity, promote and secure value for money in our use of public funds, and produce quality, value adding, pieces of work. We must be able to stand the test of independent scrutiny and retain our credibility and reputation with the

## Part One: Who we are

Assembly, audited bodies and other stakeholders. In managing this, the Office has in place a risk management strategy which is subject to regular review by its governance structures.

- 1.6 The main activities of the NIAO are set out in Figure 1 below.

**Figure 1 - Main activities of the NIAO**

<b>Financial Audit</b>	Forming an opinion on published accounts; 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.
<b>Value for Money (VFM) Audit</b>	Independently examining and reporting to the Northern Ireland Assembly on whether public bodies spend taxpayers' money economically, efficiently and effectively.
<b>Governance and Fraud Prevention</b>	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.
<b>Support to the Northern Ireland Assembly and the public</b>	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 disclosures from members of the public.
<b>Comptroller function</b>	Authorising the issue of public funds from the Consolidated Fund for Northern Ireland.

- 1.7 The Office reports on its performance in the Annual Report and Accounts. In our most recent publication in respect of the 2011-12 year, we highlighted the successful delivery of a challenging programme of work, including the audit of over 200 public sector accounts, the publication of 17 reports across the spectrum of our responsibilities, working closely with the Northern Ireland Assembly's Public Accounts Committee (PAC) facilitating eight evidence sessions and preparing a report for the Assembly's Environment Committee. We delivered this programme of activities while bringing about internal efficiencies and reduced costs without compromising on the quality or scope of our work or the support we provide to the Northern Ireland Assembly.
- 1.8 Further details of the status, functions and main duties of the C&AG and the Chief Local Government Auditor, including relevant legislation, are set out in detail on the Office's website at [www.niauditoffice.gov.uk](http://www.niauditoffice.gov.uk).
- 1.9 It is important that the Plan reflects and responds to the external environment in which the Office operates. A key consideration in this planning period is the Northern Ireland Executive's Programme for Government 2011-15 (the Programme). The Programme, issued in March 2012, has a primary focus on growing the economy and tackling disadvantage, and sets out wide ranging commitments across government.
- 1.10 The Programme is set within the context of significant financial constraints. The Northern Ireland Executive's Budget 2011-15 sets out the reduced level of funding available to the public sector over this period. Departments are expected to identify significant efficiency savings so that, as far as possible, they can manage the budgetary pressures in ways that do not put front line services at risk. The Office will support the Assembly in holding departments to account for achieving efficiencies and also help departments find more efficient and effective ways of working and delivering public services, while at the same time maintaining our strong professional relationship with the Assembly, the Northern Ireland Civil Service (NICS) and the wider public sector.
- 1.11 The Review of Public Administration (RPA) proposed a number of changes in the health, local government and education sectors. Reform in the health service has taken place and commitments in the Programme include establishing the new 11 council model for local government by 2015, making the Education and Skills Authority operational in 2013 and agreeing any changes to post 2015 structures of Government in 2012. The restructuring of public services and the establishment of new public entities directly impact on the scope of the Office's audit work. Developments over the planning period are explored in Part Three.

## Background to the Plan

- 1.9 It is important that the Plan reflects and responds to the external environment in which the Office operates. A key consideration in this planning period is the Northern Ireland Executive's Programme for Government 2011-15 (the Programme). The Programme, issued in March 2012, has a primary focus on growing the economy and tackling disadvantage, and sets out wide

## Part One: Who we are

1.12 While responding to external factors, we will continue to provide our core activities of financial and value for money audit. In doing so, we will:

- **continue to develop our skills within our remit as a public sector auditor** – to ensure we are in a position to help the Assembly and the public sector maximise the provision of front line services while delivering real efficiency savings;
- **ensure that the Office provides value for money** – by identifying quantifiable financial savings resulting from recommendations in our reports. In the period 2009-10 to 2011-12 we have achieved an average saving of £33 million per annum, which represents around four 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. We have a number of VFM reports in our forward work programme which we anticipate will generate significant savings in the coming years (see paragraph 3.11); and

- **focus on maintaining a high quality public audit service within a reducing budget** – we have already secured significant efficiencies and cost reductions and are committed to generating what further savings we can over the plan period. However, we are reaching a position where it is becoming increasingly difficult to deliver our programme of work within budget allocations without compromising on quality and scope. This is addressed in Part Five.

1.13 Figure 2 presents our strategic map for 2013 to 2016.

Figure 2 - Strategic Map 2013 to 2016

## 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.

## What we do

Auditing	Reporting	Recommending Actions
<p>We conduct relevant and timely audits on how public funds are being managed and used.</p> <ul style="list-style-type: none"> <li>Annual audits of 200+ public sector accounts</li> <li>11 value for money examinations a year</li> <li>National Fraud Initiative</li> <li>Promote: <ul style="list-style-type: none"> <li>high standards in financial management</li> <li>good governance</li> <li>the proper conduct of public business</li> </ul> </li> </ul>	<p>We report our findings and conclusions to audited bodies, and publicly through:</p> <ul style="list-style-type: none"> <li>Annual audit reports on accounts</li> <li>Value for money reports</li> <li>Biennial National Fraud Initiative reports</li> <li>Good practice guides</li> </ul>	<p>We identify risks and make clear and relevant recommendations for improvement and follow these up.</p> <ul style="list-style-type: none"> <li>Identifying areas for improvement</li> <li>Making recommendations</li> <li>Following up implementation of recommendations</li> <li>Quantifying the financial savings resulting from our work.</li> </ul>

## How we do it

<b>Quality</b>	Applying effective systems of quality control
<b>Innovation</b>	Continuing to develop and improve our products to maximise the impact of audit
<b>Personal performance</b>	Supporting and equipping our people to provide a high-quality audit service
<b>Value for money</b>	Maximising our efficiency

## Part Two: What we will do

### Our strategic aims

- 2.1 Our primary focus will continue to be on the delivery of our core activities of financial and value for money (VFM) audits:
- During 2013-14 we expect to undertake audit work on 213 accounts of public sector bodies, including 46 accounts of local government bodies; and
  - We also intend to publish 11 VFM reports each year, a number of which will be used to support the work of PAC.
- 2.2 In addition to the above we will continue to concentrate on a number of key areas where, by utilising our skills and experience, we can add considerable value to the Northern Ireland public sector. In the previous plan we reported nine key areas which this year have been refocused into three, as summarised in Figure 3 and discussed in more detail in the paragraphs below.

**Figure 3 – Key areas of focus**

1. Encouraging further improvement in financial management;
2. Promoting the proper conduct of public business; and
3. Promoting improvement in the efficiency and quality of services provided to the taxpayer.

### Encouraging further improvement in financial management

- 2.3 The quality of financial management in the public sector has improved significantly in the last ten years in many ways, including through the professionalisation of the finance function, resource accounting and improvements in corporate governance. However, our reports continue to identify aspects of financial management and governance where there is significant scope for improvement.
- 2.4 Whilst recommendations for improvement are normally made through reports directly to the audited body, where issues are raised that could have an impact across the public sector we will consider the preparation of additional public reports.

### Promoting the proper conduct of public business

- 2.5 All public officials are required to behave in the public interest and to high ethical standards. It is essential that the general public and their political representatives have confidence in the way that civil servants conduct public business.
- 2.6 Whilst the Office is not primarily a regulatory body of standards and conduct, we encourage good governance and propriety throughout the

public sector through our dissemination of good practice, recommendations made following our annual audits of financial statements and reports on poor compliance. For example, our September 2012 report "NIHE Management of Response Maintenance Contracts" identified a number of areas where governance within the Northern Ireland Housing Executive was not as effective as it should have been and instances of acceptance of excessive hospitality.

- 2.7 We will continue to work closely with others such as bodies' Internal Auditors, Audit Committees and non-executive directors, to ensure that ethical standards are being followed. We also work with the Chief Executives' Forum on an ongoing basis to provide training to board members and audit committee members to ensure they are aware of their responsibilities in this regard. We also, where requested, provide input to Chartered Institute of Public Finance and Accountancy (CIPFA) seminars and workshops, for example, audit committee training.

## Promoting improvement in the efficiency and quality of services provided to the taxpayer

- 2.8 In addition to identifying opportunities for reducing costs and improving productivity and efficiency, our value for money work also promotes the improvement of services provided to the taxpayer. An example of this is our annual review of "Continuous Improvement Arrangements in the Northern Ireland Policing Board", a statutory requirement under the Police (Northern Ireland) Act 2000. In addition, we aim to publish a report looking at the improvement of literacy and numeracy within schools, a high profile issue impacting upon large numbers of Northern Ireland's citizens. We are also examining the performance of the Agri-Food and Bioscience Institute. The Institute plays a key role in supporting the competitiveness of the important agri-food sector which in turn sustains a significant percentage of jobs in the local economy.

## Part Three: How we will do it

### We will provide assurance to the Assembly on public sector accounts

3.1 One of our core areas of work continues to be the provision of assurance to the Assembly on the annual accounts prepared by public sector bodies such as departments, agencies, health trusts and other non-departmental public bodies (NDPBs).

#### Challenges Ahead

3.2 Following a review of the financial process in Northern Ireland in February 2011 the Department of Finance and Personnel (DFP) issued a discussion paper to key stakeholders in October 2011 setting out initial recommendations to address misalignments between Budgets, Estimates and Accounts. If implemented these recommendations will have a significant impact on the work of the office, particularly the recommendation to consolidate NDPBs within the departmental resource accounting boundary. The earliest date proposed for this inclusion is 2014-15, with consolidated resource accounts being audited in the summer of 2015. This is likely to impact on the timing and complexity of our work, particularly in the early years as bodies adjust to the additional requirements. We will continue to keep abreast of developments in this area and commence preparation for any changes which may occur in the lead up to the implementation date, such as a review of dry run accounts in 2014. Once the

details of these proposals are finalised, including an agreed timetable for the delivery of the audit work, we will consider how to minimise the impact on our resources at peak periods and review our budgets to ensure we are appropriately resourced to deliver this work.

3.3 The Northern Ireland Executive has also set out its plan for the implementation of the review of public administration in education with the creation of the Education and Skills Authority planned for April 2013. This reorganisation of education bodies will reduce the number of accounts to be audited and should lead to efficiency savings towards the end of this planning period. Our experience of previous re-organisations would suggest that the first two years' audits of the new body are likely to require greater audit scrutiny as new governance frameworks mature.

3.4 During the planning period it is anticipated that we will be responsible for an additional six audits. These audits are NDPBs, all of which are companies limited by guarantee which are now being brought within the C&AG's remit.

3.5 Our budgets for financial audits are based upon the current structure of central government, including the continuation of the 12 department structure. Should there be any change to this model during this planning period we will have to assess the impact of these changes on our resource requirements.

### How we will prepare for these challenges

- 3.6 Careful management is crucial to operating within the changing environment in which we are currently working, especially the management of the peaks and troughs of our audit work. This is particularly important for those audits that have to be completed for the Assembly summer recess. With this peak likely to increase over the lifetime of this Plan as a result of the review of the financial processes (paragraph 3.2) it is imperative that we plan early and carefully manage our resources. To manage the peaks in our workload we conduct a proportion of our audit work at an interim stage, in advance of the peak periods. Moreover, during our peak periods we ensure there is flexible use of resources across the Office. We also engage short term temporary staff to assist us, and contract out a proportion of our financial audit work to private sector audit firms<sup>1</sup>. Currently around 28 per cent of our financial audit work is contracted out in this way. We have no plans to increase this proportion over the currency of this Corporate Plan.

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

- 3.7 In November 2011 it was announced that the reform of local government would be delivered on the basis of an eleven council model. This reorganisation is planned to take place in 2015. We have initiated engagement with the Department of the Environment on the progress of the reforms, in particular the overall delivery programme, the specific policy and legislative proposals for a new performance management regime and the Chief Local Government Auditor's role within the regime.
- 3.8 It is anticipated that the eleven councils will exist in shadow form at some point in the year commencing 1 April 2014. It is also anticipated that eleven Statutory Transition Committees will be in place, possibly as early as some point in the year commencing 1 April 2013. There will, therefore, be an increase in our financial audit workload in the initial years of implementation of this initiative. Any economies of scale that we would anticipate due to a reduced number of audited bodies will be outside the period of this plan. When we obtain further clarity regarding the local government reforms we will review our resourcing needs and the impact on our budget.

<sup>1</sup> Lord Sharman of Redlynch's report dated February 2001 "Holding to Account: The Review of Audit and Accountability for Central Government" recommended continuance of contracting out work to private firms to provide competitive tension and benchmark efficiency, working towards a figure of 25 per cent of resources devoted to financial audit.

## Part Three: How we will do it

### We will undertake an annual programme of value for money work and provide quality support to the Public Accounts Committee

- 3.9 Our value for money programme 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.
- 3.10 The majority of our published reports are considered by the Assembly's Public Accounts Committee (PAC) and a key measure of our success is the extent to which our reports help elected representatives hold public bodies to account. Since the return of devolution in May 2007 PAC has considered over 66 reports in evidence sessions. These reports have produced a range of valuable recommendations, each of which is responded to by DFP through a "Memorandum of Reply". The vast majority of these recommendations have

been accepted and implemented by the departments involved.

- 3.11 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 will examine the management of sickness absence across the public sector; we will examine the prevalence and impact of student non-attendance; and we will review a number of capital and IT projects to identify lessons to improve future delivery.
- 3.12 Our VFM work also promotes good practice. The NIAO 'Good Practice Guide in Risk Management', June 2011, demonstrates the importance of risk management in the governance arrangements of all public sector bodies. This report illustrates the contribution of risk management to the achievement of outcomes and objectives, and its role in assisting in the delivery of better, more cost effective public services. We will continue to support well thought through and managed risk taking by public bodies in meeting their objectives.

### We will provide wider support to the work of the Assembly

- 3.13 Our main engagement with the Assembly is through the support we provide to PAC. However, there are opportunities for the Office to offer the perspectives of public sector audit to the

wider Assembly. This wider role might be fulfilled in a number of ways:

- **Secondments** – we had seconded a member of staff to the Assembly Secretariat’s Business Efficiency Programme project team in both 2011-12 and 2012-2013, in response to a DFP Committee report into the Scrutiny of the Budget. Another member of staff has been seconded recently to the Assembly’s Public Finance and Scrutiny Unit. It is expected that this will be a recurring secondment;
- **Briefings for statutory departmental committees** - over recent years, we have provided evidence to a number of departmental committees in the Assembly including health, environment, agriculture and finance and personnel; and
- **Additional public reporting** – we will consider whether there is merit in producing public reports which are additional to our mainstream financial and value for money work. For example, in 2011, we produced a financial and performance overview report on the Department of the Environment; and an organisational assessment and review of departmental oversight of the Northern Ireland Fire and Rescue Service.

3.14 In addition, while the PAC has primacy in determining whether to hold an evidence session on NIAO’s reports, the

Committee may occasionally refer them on to the relevant statutory departmental committee. The Office will offer support and advice as necessary to help the departmental committees handle such reports.

## We will continue to promote measures to prevent and detect fraud

3.15 Fraud remains a continuing threat to public sector bodies, and is more prevalent in difficult economic times. We encourage public bodies to develop and implement sound counter fraud strategies to meet this threat. We support bodies by providing advice, participating in fraud awareness workshops hosted by departments, and ensuring that key lessons to be learned from frauds are highlighted in reports to the Assembly and disseminated to the wider public sector.

3.16 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.

3.17 Since 2008 we have undertaken two major data matching exercises as part of the National Fraud Initiative (NFI), a UK wide initiative to combat fraud

## Part Three: How we will do it

and error. In total, these exercises have saved around £24 million in Northern Ireland. The third NFI exercise has recently been launched and we are confident that it will again generate significant savings. We continue to explore ways of developing NFI further through the inclusion of additional public sector bodies and new data matches. For example, two teacher training colleges are participating in the NFI for the first time and a register of farmers will be matched with social security benefit recipients. We also encourage public sector bodies to embed NFI into their core business and make it an intrinsic part of their counter fraud strategies.

- 3.18 Whistleblowing has an important role in maintaining and securing standards in public life. We are a prescribed body 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 foster a climate in which those with concerns about wrongdoing are encouraged to come forward and we take appropriate action in response to the information that we receive.

### **Demonstrating our performance**

- 3.19 We have a range of measures which assist in demonstrating our productivity, quality of work and achievements in reducing costs. Performance achieved against the key measures set out in Appendix 1 is disclosed each year in our Annual Report and Accounts.

## Part Four: Our staff

### How we will develop our staff

4.1 Over recent years the Office has delivered a broad based and expanding programme of work (encompassing for example the implementation of new International accounting and auditing standards and working closely with the PAC on evidence sessions on our reports) while achieving efficiencies and savings, as detailed in Part Five. The dedication, skill and experience of NIAO staff has been very evident in delivering this performance, and looking ahead, will be essential in ensuring we continue to provide quality services to the Assembly and audited bodies.

4.2 Over 60 per cent of our staff are qualified and trainee accountants, and others are qualified in other relevant disciplines. During the Plan period we will remain focused on achieving professional excellence, a key strand of which will be investing in our people through the provision of training and development. Taking account of the capacity and needs of the business, we will place an increasing focus on staff acquiring skills and experience across the spectrum of our audit responsibilities to ensure:

- we have the required flexibility to deliver our statutory functions within our budget;
- job enrichment and personal growth for staff; and
- the development of a skills base for the future.

These will be embedded in a new Learning and Development Strategy, and will form important considerations in succession planning, both of which are being addressed as part of the Office's Human Resources Plan 2011-13.

### Meeting our obligations under equality legislation

4.3 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 Five: What we will need

### We will focus on maintaining the same quality and scope of service within a reducing Net Resource Requirement over the plan period.

5.1 We reported in our previous Corporate Plan (2012-13 to 2014-15) that our Net Resource Requirement had reduced by 11.7 per cent in real terms (using the then GDP deflators) and 9.1 per cent in cash terms from 2010-11 to 2011-12. A further 9.8 per cent in real terms (2.5 per cent in cash terms) was forecast for 2012-13 to 2014-15. The proposed resource requirements for the current planning period are set out in Figure 4. We forecast a small increase

in Net Resource Requirement for the final year of the plan, 2015-16, to reflect higher staff costs and a reduction in forecast income. This will represent the first increase in the NIAO's net resource requirement in a number of years.

5.2 On 12 November 2012, the Executive proposed a reduction of £167,000 to NIAO's allocation in both 2013-14 and 2014-15. This is in addition to the 11.3 per cent (cash terms) reduction to NIAO expenditure from 2010-11 to 2014-15 (the second highest percentage decrease for NI bodies) in the Executive Budget. The proposed resource requirement in Figure 4 does not incorporate the November 2012 figures.

**Figure 4 - Proposed Resource Requirement**

				Plan Period		
	2010-11 Main Estimate* £'000	2011-12 Main Estimate £'000	2012-13 Main Estimate £'000	2013-14 Forecast £'000	2014-15 Forecast £'000	2015-16 Forecast £'000
Net Resource Requirement	9,397	8,542	8,414	8,327	8,248	8,654
Increase/(Decrease) in cash terms		-9.1	-1.5%	-1.0%	-0.9%	4.9%
GDP deflator		-2.34	-2.7	-2.5	-2.5	-2.5
Increase/(Decrease) in real terms		-11.2	-4.1	-3.4	-3.4	2.4

\* This amount is based on our 2010-11 Main Estimate (that is, before the 2010-11 Spring Supplementary Estimate). In order to aid comparability the figure has been amended to include £388,000 of budget which was transferred from the National Audit Office in respect of the financial audit of policing and justice bodies, effective from 2011-12.

## Part Five: What we will need

5.3 In recent years, and without any compromise to the quality and scope of our work, we have secured significant efficiencies and savings through a range of means including a two year pay freeze (2010-11 and 2011-12), temporary suspension of trainee accountant recruitment, a reduction in overall staff numbers achieved through normal changes from retirements and resignations, reduced use of temporary appointments by ensuring the optimal allocation of our permanent staff, and reduced reliance on consultants. At the same time our work has continued to result in financial savings for the public sector, as demonstrated in paragraph 1.12 and which total £184.6 million for the last five years. The proposals in paragraph 5.1, which present a real terms reduction of over 20 per cent in the Office's net resource requirement from 2010-11 to 2014-15, require significant additional efficiencies and cost reductions to be realised. While we are committed to playing our part alongside the rest of the public sector in Northern Ireland to reduce costs, we are conscious that it will become increasingly difficult for us to achieve the extent of savings required to meet the forecasts in Figure 4, without significant risk to the delivery of our services from as early as 2013-14. Also the cost reductions in Figure 4 do not take account of any potential impact on our workload of changes such as the outcome of the review of the financial process in Northern Ireland detailed in Part Three due to uncertainty over their timing and form.

5.4 Proposed resources for 2013-14 to 2015-16 incorporate a change to the method of delivery of the Office's Information and Communications Technology (ICT) requirements to support its business. This change will impact on both gross expenditure and capital (see paragraph 5.7). It is planned that we will move from a position of full in-house provision of the ICT function to outsourcing of this service and that the new arrangements will be in place at 1 April 2013. The costs are currently being finalised and should we believe that our current proposals for 2013-14 require amendment, we will inform the Assembly's Audit Committee at the Estimate stage.

### Our use of resources

- 5.5 An analysis of how we will use proposed resources during the planning period is set out in Figure 5.
- 5.6 Salaries will continue to account for over 70 per cent of our gross resource requirement over the period of the Plan. We have assumed that the average pay rise will be around 2 per cent per annum. The resulting increase to forecast salary costs is off-set by assumptions regarding reductions in the number of full-time equivalent staff through normal change.

## Part Five: What we will need

**Figure 5 - Proposed use of resources**

	<b>2012-13 Estimate £'000</b>	<b>2013-14 Forecast £'000</b>	<b>2014-15 Forecast £'000</b>	<b>2015-16 Forecast £'000</b>
Staff	7,525	7,511	7,584	7,736
Staff (temporary)	97	90	90	90
Consultancy	60	45	45	45
Contracted out audit	1,377	1,317	1,272	1,272
General expenditure*	1,814	1,484	1,695	1,569
<b>Gross resource requirement</b>	<b>10,873</b>	<b>10,447</b>	<b>10,686</b>	<b>10,712</b>
Income	(2,459)	(2,120)	(2,438)	(2,058)
<b>Net resource requirement</b>	<b>8,414</b>	<b>8,327</b>	<b>8,248</b>	<b>8,654</b>

\* General Expenditure includes £300,000 in 2012-13 and £330,000 in 2014-15 for our costs incurred in the National Fraud Initiative. This is carried out biennially and leads to some fluctuation between years. A similar amount is also included within income in those years in respect of amounts recharged to those bodies participating in the Initiative. As the costs and income are approximately the same, the net cost of the initiative is nil.

### Capital expenditure

5.7 Over the period of the Plan we intend to outsource delivery of our ICT services. As a result the supplier of the services will be responsible for IT infrastructure asset procurement. We will continue to update and replace line of business software and a limited amount of hardware to enhance operational

efficiency and effectiveness. The figures in 2013-14 include the purchase of new audit software and an Electronic Document and Records Management System (EDRMS). In summary we forecast that our capital expenditure will be as shown in Figure 6 below.

**Figure 6 - Proposed capital expenditure**

	<b>2012-13 Estimate £'000</b>	<b>2013-14 Forecast £'000</b>	<b>2014-15 Forecast £'000</b>	<b>2015-16 Forecast £'000</b>
Total capital expenditure	240	290	50	50

## Appendix 1: How we 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:

<p><b>Ensuring ongoing efficiency in our work</b></p>	<p>We have a target of achieving annual savings of at least 1.5% in real terms in the costs of both our financial audit and Value for Money work.</p>
<p><b>Timeliness of our outputs</b></p>	<p>As part of our VFM work we have a target to complete and report on eleven studies each year.</p> <p>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 87 per cent within twelve months (rising to 90 per cent from 2014-15). In order for us to achieve this target the audits of almost all Departments, Agencies, larger NDPBs and Local Councils must be completed within seven months and a large proportion of our other smaller audits with twelve months.</p>
<p><b>Our work is of the highest quality</b></p>	<p>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.</p> <p>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 our VFM reports maintain an average quality review score of at least three.</p>











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