



Northern Ireland
Assembly

Audit Committee

OFFICIAL REPORT (Hansard)

Budget 2021-22:
Northern Ireland Audit Office

7 October 2020

NORTHERN IRELAND ASSEMBLY

Audit Committee

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Members present for all or part of the proceedings:

Mr Daniel McCrossan (Chairperson)
Ms Joanne Bunting (Deputy Chairperson)
Mr Jim Allister
Mr Alan Chambers
Ms Emma Rogan

Witnesses:

Mr Rodney Allen	Northern Ireland Audit Office
Ms Pamela McCreedy	Northern Ireland Audit Office

The Chairperson (Mr McCrossan): I thank our guests for attending. Representing the Northern Ireland Audit Office (NIAO) are Pamela McCreedy, chief operating officer of the Northern Ireland Audit Office, and Rodney Allen, director of corporate services of the Northern Ireland Audit Office. You are both very welcome. I ask you to make a short opening statement, and then we will open it to members.

Ms Pamela McCreedy (Northern Ireland Audit Office): Thank you very much, Chairman. It is good to see that you are keeping well and are back with us. I will say hello to new members who I have not met yet; I am just saying hello to everyone.

We welcome the opportunity to meet you here today, particularly on the three-year budget approach. We, as an Audit Office, have been advocating longer-term planning for a long time. That is relevant to us in our organisation, especially in the development of our business transformation programme at the office.

To contextualise the budget, I thought that I would just spend a quick moment reflecting on the past three years. We applied that strategic planning approach to improve and deliver our work. We have developed a three-year public-reporting programme with the aim of being open, transparent and agile and of keeping the office relevant in what it reviews. There is a focus on staff, aligning skills, cost and efficiency. As you will see in the document, approximately 40 staff left the organisation over that period with the facilitation of the voluntary exit scheme (VES), including those in senior roles. We have been recruiting graduate trainees, higher-level apprentices and new expertise into the office to do analytics, learning and development, communications and HR.

Over that period, we had a strong focus on quality and governance. A new advisory board, audit risk and assurance committee and remuneration committee have been appointed. We have enhanced our quality review mechanisms. In addition to internal audit, external audit and the independent panel that reviews our reports, we recently went to market for independent quality assurance, and that has been

appointed to the Institute of Chartered Accountants in England and Wales (ICAEW). Last year, we published new value for money (VFM) standards outlining the standards on how we conduct our public reporting.

We have been investing in and strongly developing analytics. That is still in the research and development phase, but we see that as integral to modernising our audit practice going forward. We have had a large focus on our people over that time, so there has been quite a lot of structural change. We have a new people strategy and have undertaken a roles profile for all roles in the organisation. Hence, we have invested heavily in leadership and team effectiveness. Recognising that a lot of change has been going on in the office, we have had strong engagement with our trade union colleagues, who have positively engaged with us, challenged us and supported us, which I thank them for. I am extremely proud of the staff. In recent months, they have been very committed to the organisation and have been very flexible in how they have worked.

Finally, our other major project, which I am sure we will come to at some point today, is accommodation. One of the key drivers in our strategic objectives was to transform our business and meet emerging challenges, which I am sure we will touch on.

We have achieved a lot. A number of elements of the changes that I have mentioned will have an impact on our future funding. That is laid out in the paper, so I will not labour the point; I am sure that we will come onto it in the Q & A.

The Chairperson (Mr McCrossan): Thank you again for attending. What are the challenges to your budget this year? On the accommodation project, are you still on budget or have those costs hedged?

Ms McCreedy: I will take the question on challenges and let my learned colleague answer the question about the accommodation project, as he is the senior responsible officer (SRO) and might as well be fully accountable in that regard.

As we have outlined in the paper, we are renewing our corporate plans, which will be coming through to you. A lot of the initiatives and projects that we have started over the past couple of years have given us a strong baseline to build on. There is continuing investment in people and adding to skills. For example, one of the cost pressures is the continued recruitment of graduate trainees and high-level apprentices into the organisation.

As we touched on at our last meeting, 70% of what we do is based on financial audit and the rest is predominantly public reporting. There are other aspects of our work, but predominantly that is it. Over the past 18 months, we have been bringing people through from financial audit into public reporting. That process has been a bit slow, but it has been the right thing to do to get the right skill and expertise into the work. There is a pressure because, as we continue to increase our numbers, there is a financial impact.

We have a number of challenges, particularly on income. We have clarified that one of the major impacts on our income would have been the potential loss of the European agricultural fund for rural development (EAFRD), but we have got eyes on that now through until 2022-23. So, it is a bit more certain; it will not be there for ever, but at least we have a little bit of certainty on it.

Financially, we have included a little bit in the budget, as you will see, on the public reporting side to support us taking forward some of the RHI recommendations and following up on the progress of that. That is about enhancing our capacity in public reporting, and in doing that we will be able to incorporate the work that we need to do on RHI.

So, there are a number of key pressures, which is why we have been protecting our baseline. Rodney referenced before that it has felt like a recruitment agency in the Audit Office over the past 18 months, but there is a recurrent tail on that. So, to date, we have not felt the full-year effect of that, but, into next year and the following years, we will.

Mr Rodney Allen (Northern Ireland Audit Office): Chairman, before I answer your question, I will quickly give a wee bit of context for members on the accommodation project. We are in a building at 106 University Street, which some members may have been in. The building outgrew us; we got too small for the building. We used to have bigger staff numbers, and we have been in the building for nearly 30 years. I am on record as saying that my office is so big that it feels like a suite. It is of a certain time and era and is not the most efficient use of accommodation and space. We are working

with experts from the Strategic Investment Board and the Construction and Procurement Delivery unit in DOF to give us the relevant skill sets to guide us through the project.

I could simplistically say that we are on budget, but that would be very disingenuous. Looking at the Hansard report from February and March, we talked to the Committee about a cost envelope of just over £4 million. You will see from the papers that it has only gone in one direction. We are now talking about a scheme that has hit £6 million. What are the reasons for that? Eight to nine months ago, we were at a concept design stage. We have walked through Royal Institute of British Architects stage 3, which is a very detailed design process, and we have taken all the expert advice into account to come up with what is the right design that we need for this project. That resulted in increased costs. It also flushed out some aspects of the building that we did not expect to have to do in this project, such as replacing 30-year-old windows across the whole building. That was a significant extra cost. We got a more precise estimate for our furniture and equipment expectations and what we would actually require. In the round, all of it came to about £1 million, plus VAT.

There are a couple of other aspects. At 20%, our optimism bias is still set fairly high; when we talked to you before we were at a lower percentage. There is a lot of uncertainty that members will be aware of.

There is one final aspect that has influenced this significant move on budget. The experts advise us that we need to make significant allowances for COVID-19 and construction inflation in the current market place. When you bring that into the mix, it brings us up to the new figure of £6 million.

The Chairperson (Mr McCrossan): OK, thank you.

Mr Allister: In seeking your budget, are you subject to any Department of Finance guidance and efficiency requirements, or do you pitch for what you think you need?

Ms McCreeley: I will go, and you can come in on it.

Mr Allen: Sure.

Ms McCreeley: There has been no request with regard to efficiency as we look into the three-year budget. As we reflect in the paper, there has been quite a bit of efficiency over the past eight to 10 years. We took that quite early in the austerity period and built it in. Our budget has been significantly reduced — by 40% — compared to what it was then. We have used the VES as the early efficiency, post-08, and that concluded about 18 to 24 months ago. Our budget build for the next three years is based on what we feel we need to deliver the work to the Assembly from a statutory audit and a public reporting point of view. There has been no requirement, unless you are going to remind me differently, of any efficiency coming from the Department of Finance.

Mr Allister: As an organisation that is not accountable to an independent board and which is really beyond scrutiny, other than in respect of your estimates, and, even when it comes to your estimates, you do not live within the constraints of the Department of Finance's guidance at all.

Ms McCreeley: I believe that we are held to account by the Committee and that our budget is scrutinised by yourselves. Our budget is reviewed by the PAC, and I understand that the Committee takes on board the comments from the PAC and the Department of Finance on our budget. We are proposing our requirements for the next three years based on our business need.

Mr Allister: How would the Department of Finance comment on your budget? Do you furnish it to them?

Mr Allen: This Committee furnishes it to the DOF, and then you take comments from the Department.

Mr Allister: OK, we furnish it to them. I am a bit surprised that the budget of the Audit Office, a body that is very good at scrutinising others — necessarily so — is not subject to any guidance or restraints other than what is happening today.

Mr Allen: Chair, may I offer some thoughts?

The Chairperson (Mr McCrossan): Yes.

Mr Allen: Way back, in the time of austerity when Departments were having to live within their existing budgets, pay freezes and 1% pay increases, as an organisation we were exactly the same. The C&AG was very clear then. I have been around public audit for a wee while, so I can recall that time. He felt that it was very important that we moved early, took our haircut early and demonstrated that we were, hopefully, leading by example in terms of the budget that would apply to his office. Indeed, during the absence of the Assembly, the C&AG wrote to the Secretary of State because he felt that his budget had become so restricted that it was putting him under pressure to deliver a truly independent audit function.

Therefore, we are very mindful of efficiency and of getting our pitch right. We see the numbers before you as, hopefully, very reasonable in helping us to get the staff base into the position that we need it to be in. The 5% probably looks like a significant number. However, you will see its impact tailing off into 2% or 1.3% in the years thereafter. DOF will liaise closely with us. However, it understands that the primary function to review our budget belongs to the Committee.

Mr Allister: Your new building was obviously designed before COVID-19 and the new norm of homeworking. Many people think that things may not return to how they were. Have you revised your needs in accordance with that possibility?

Mr Allen: We looked at that very closely and continue to look at it almost daily throughout the design process. It might sound a bit flippant to say that it was almost as if we were future-proofing ourselves, but we were in the move to make better use of our space and rationalise into 60% of the property. As an audit function, we had our staff in two places pre-COVID-19: in the office or out with clients — audited bodies. In the new world, our staff are in three places: the office, at home, or out with audited bodies. Although none of us knows clearly what the future will be, we see it as a hybrid. We are moving to have a working group look closely at the future of work. The new accommodation will enable us to provide a much more collaborative working environment when we bring our staff into a much smaller space than they occupied in the past. The furniture, desks, and so forth, which I mentioned, will provide great flexibility for that. We also want to become a more open environment. Our new ground floor will become an environment where we have a training facility, which we expect to be used far beyond NIAO. We want to throw open our doors to the wider public sector.

Mr Allister: Do you own your present building?

Mr Allen: We do.

Mr Allister: Is there asset recovery? As you move forward with your new project, does that free up anything that will be sold?

Mr Allen: We own the whole building. The intention is that we will lease some 40% of it. Therefore, we will move into a new world where we will be landlords. We will have tenants, and that will be the income stream. That income stream is very important to underpin the business case for the overall project.

Ms McCreedy: We have been operating that over the past year or so. The neurology inquiry occupies the ground floor of the part of the building that we are leasing out. The Public Services Ombudsman, who will be coming in after us, utilised it as well when they were decanting to refurb their building. As Rodney said, with the exit of those numbers of staff, we have consolidated our staff into the front of the building, and the wing down the side can, effectively, be a standalone part of the building that we can lease.

Mr Allister: OK. Chair, I imagine that, in future, I will have further questions about accountability and oversight. However, I do not think that today is the day for them.

Ms Bunting: Thanks very much, folks, for your paper. I have a couple of queries about staffing.

Ms McCreedy: Sure.

Ms Bunting: I note that you have provided the numbers and that you intend to increase from 111 up to 125 full-time equivalents.

Ms McCreedy: Yes.

Ms Bunting: I also note that you said that that will cost about £170,000 a year.

Ms McCreedy: Sorry, I cannot —.

Ms Bunting: I note that, in your paper, at page 6, paragraph iv, you say:

"Approximately 70% of our costs are staff salaries."

On page 5, paragraph 7, you say:

"Nearly 85% of our budget is committed to staff costs and the expenditure".

Ms McCreedy: Yes.

Ms Bunting: And you say:

"Consolidated inflationary increases and pay increments in the region of £170k are required each year."

Ms McCreedy: Yes.

Ms Bunting: You also mentioned several times, Pamela, the move from senior to junior staff. I am not asking you to provide it now, but it would be helpful if you could furnish us with some indication of what your staffing levels and grades were —

Ms McCreedy: Sure.

Ms Bunting: — what they have moved to, and the savings found in that. If it is still 70% of your budget, I am interested to know what percentage of your budget it was when you had all those senior people.

My other question is about best practice in audit and how the Audit Office ensures that it keeps pace with changes in audit and best practice.

My last point is about your review of the RHI recommendations. You said that you are bringing someone on board to address and monitor those. Presumably, that will be not a lifetime, but a temporary, appointment. How long do you anticipate those having to be monitored? I am keen to understand the time frames.

Ms McCreedy: OK. I will pick up those points. We will certainly get you the staffing profile as it was before and where we are now; I am more than happy to do that. We recently submitted information to the Department of Finance, particularly on the voluntary exit scheme and the savings related to it. That will all be caught up in the same aspect.

On best practice, there are two core aspects to our work. You will appreciate that we are also involved in an aspect of fraud — the national fraud initiative — but, predominantly, our work is in financial audit and the public reporting of value for money. On the financial audit side of our business, we operate using the National Audit Office (NAO) audit methodology — our financial audit methodology. One of the projects that we are taking forward will look at that, and we are mobilising the team for it. Things have changed for the NAO and for us. The NAO is required to do audits under company law, which is not the case for us. Part of that project will look at whether that methodology is still appropriate for us and at comparative audit methodologies used by Audit Scotland and Audit Wales, for example.

We continue to do research and development work on data analytics while moving forward with aspects of it at the same time, and we are mindful that we need to integrate that into any future audit methodology.

We have a technical team in the Audit Office, so, in addition to the core staff doing audits, there is a technical team that keeps us up to date on standards. If the Financial Reporting Council was to release further accounting or audit standards, it would engage with our teams through the NIO to make sure that we are aware of the changes, how they would impact on our audit approach and allow us to make sure that staff are adequately trained and understand it. There is a tight approach to that.

As part of our review of staffing and looking at where we have roles and expertise, we have enhanced that team and put extra capacity into it to take account of the changes that have taken place. That is on the best practice side.

On assuring ourselves that we are adhering to it and doing it properly, we review, as I mentioned, our work internally through cold reviews with our teams. We are also peer-reviewed and, together with colleagues from Audit Scotland, Audit Wales and the National Audit Office, we participate in cross-peer reviews of each other's work. In addition to that, on the financial audit side, as I said, we recently went to market, and the ICAEW will take a sample of audits and review them against standards to give us that level of assurance.

On the value for money side of our business, we have an independent panel that reviews the reports. We are also peer-reviewed by the same group of organisations and experts in those audit bodies that I mentioned previously. We peer-review that work as well.

Does that answer your questions? Is that OK for best practice? Do you want me to move on to the RHI?

Ms Bunting: There are a couple of things. Could you furnish us with the actions that you take to ensure that you are keeping pace? There was a lot there, Pamela.

Ms McCreedy: Yes.

Ms Bunting: The other thing is the peer reviews. Do the peers choose the cases that they will review, or do you furnish them with cases?

Ms McCreedy: It is a mixture, particularly on the public reports. Some of them will be a completely random selection, and some we will offer up. If we have had something high profile, we will steer them towards it and tell them that they should look at it. It is a bit of both.

Ms Bunting: And on the RHI appointment?

Ms McCreedy: I mentioned RHI in my opening remarks, and you are quite right that there are 44 recommendations. We are working to get something on the website, which we can also furnish to the Committee, and that will outline the framework of how we will approach that work.

There are the recommendations themselves, and we are engaging just with the Department of Finance as the central conduit on progress on that and on when is the right time to consider reporting on them.

In addition, we are considering it as part of our forward work programme. You will be familiar with our three-year public reporting programme. We refreshed it this year in light of COVID-19, and we are now, as part of the process in that role, looking at what the next two to three years will look like. We will look to studies that touch on issues in those recommendations as well. An example of that — Rodney was the director of it — was the review of capacity and capability. That report will be finalised and published soon and go to the Public Accounts Committee. That was very much on the back of recommendations from RHI.

Ms Bunting: I suppose that all I am looking for really is how long you envisage that post being required.

Ms McCreedy: I am not looking at it as a post. It is not a case of putting one person in just to look at it. In fact, we have a multifaceted approach, one that focuses on enhancing the public reporting side and incorporating the RHI reporting into it.

The Chairperson (Mr McCrossan): OK. Content, Joanne?

Ms Bunting: Thank you.

The Chairperson (Mr McCrossan): Alan, you indicated that you have a question.

Mr Chambers: No, I am OK.

The Chairperson (Mr McCrossan): Thank you very much. I have no further questions, either. I appreciate your both being here today. Thank you very much.

Ms McCreedy: Thank you.