



Audit Committee

OFFICIAL REPORT (Hansard)

Annual Report and Accounts 2019-2020:
Northern Ireland Audit Office

21 October 2020

NORTHERN IRELAND ASSEMBLY

Audit Committee

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Members present for all or part of the proceedings:

Ms Joanne Bunting (Deputy Chairperson)

Mr Jim Allister

Mr Alan Chambers

Ms Emma Rogan

Witnesses:

Mr Rodney Allen

Northern Ireland Audit Office

Ms Pamela McCready

Northern Ireland Audit Office

The Deputy Chairperson (Ms Bunting): Hello, Pamela and Rodney.

Ms Pamela McCready (Northern Ireland Audit Office): Good afternoon.

The Deputy Chairperson (Ms Bunting): It is good to see you back with us. Thank you very much. We are slightly pressed for time because we have to vacate the room to allow for cleaning for the next Committee to come in.

Ms McCready: OK.

The Deputy Chairperson (Ms Bunting): I invite you to make your opening statement, but — please bear with me on this, and I apologise — I ask you to restrict your remarks to three minutes, please. Thank you.

Ms McCready: Thank you very much. I appreciate that, and it is not a problem at all. I have asked Rodney to do the opening statement on the annual report and accounts. It is a corporate service team's compiled list. They have put in a lot of hard work in over the past number of months, so I have asked him to do it. We will keep him to time [*Laughter*.]

The Deputy Chairperson (Ms Bunting): Over to you, Rodney. Thank you very much.

Mr Rodney Allen (Northern Ireland Audit Office): Thank you, Chair and members, for having us again this afternoon.

Our annual report and accounts for 2019-2020 was laid before the Assembly on 24 September. It is prepared in line with the guidance that was issued by the Department of Finance in the "Dear accounting officer" (DAO) letter 01/20, and it is prepared in compliance with the accounting principles and disclosure requirements of the Government Financial Reporting Manual (FReM), which is issued

by the Treasury. Its format is therefore consistent with 17 other sets of financial statements, which includes the nine main Departments, the Assembly Commission and the Northern Ireland Public Services Ombudsman (NIPSO). The document, which is in your pack, runs to some 98 pages, but it can effectively be divided into three components. I will quickly offer a commentary on each of those.

In the first instance, the performance report gives an overview of who we are and what we do and contains commentary from our board chairperson and our Comptroller and Auditor General (C&AG). It contains an analysis of our performance for the year and a high-level summary of the resource accounts, which is, in simple terms, about how we have spent the funding that you have granted.

The accountability report is, by page count, over 40% of the document. It contains our corporate governance report and our governance statement, which details the structure and arrangements in place for the year that is under review. The accountability report also contains our remuneration and staff report, which includes specifics for each member of the senior management team and for our non-executives. It also includes the key accountability statements that are required by the Assembly, including the statement of Assembly Supply, and the technicalities around those.

The third part of the document is financial statements. In old language, or in the language that I trained with, that is essentially the income and expenditure account balance sheet, the accounting policies and the other notes to the accounts that detail the net expenditure, fee income, staff costs, other costs, assets and liabilities.

There is a lot in the annual report and accounts. A question that we are often asked is, "Who audits the auditors?". For our external audit of our annual report and accounts, we are audited by Baker Tilly Mooney Moore. Its audit certificate and opinions are at pages 72 to 75. It is a clean certificate and the opinions are unqualified. However, unusually, for this year, it contains an emphasis of matter paragraph, which draws attention to the uncertainty around the property valuation for our building because of COVID. That position adopted by Baker Tilly Mooney Moore is consistent with the position adopted by the C&AG in relation to many of the financial statements that we are auditing, including the Assembly's. Page 10 sets out various challenges and developments in our operating environment and gives a flavour of the key risks and issues.

I draw members' attention to page 26, which I thought was worth highlighting. It is a six-year trend line on our resource out-turn, and it sets out clearly the reductions and also how we reached a turning point in that trend line in the 2019-2020 year that is under review. Hopefully, that gives members a flavour of what we have been talking to you about and where we would like to start going to on our budgetary requirements in the coming years, ideally to bring our staffing levels up to 125 full-time equivalents (FTEs).

The Deputy Chairperson (Ms Bunting): Thank you very much for that, folks, and thank you for supplying us with the information that we requested at the previous meeting. I open the meeting to members who have questions.

Mr Allister: I should declare an interest, because the matter that I am going to ask you about could be said to have a relationship with a meeting that I had with both of you some months ago.

What is the role of the Audit Office vis-à-vis local government? There is this system whereby a staff member is allocated to work with particular councils, presumably more than one. Will you explain that facility to me?

Ms McCreedy: As the local government auditor, I will pick that up.

You are right. We gave you some context, possibly at the last meeting, of the changes in the Audit Office over the past 10 years from the C&AG's responsibility purely for central government audit. At one point, the health service's audit sat outside that, as did local government audit. A number of years ago, that was all brought into the Audit Office.

The role and responsibility is that the C&AG will nominate a member of Northern Ireland Audit Office (NIAO) staff to be the local government auditor. That is done in consultation and agreement with the Department for Communities. In this context, that member of staff is me.

Within the operational roll-out of those audits, one thing that we have changed over the past number of years is that none of that work sits in silos any more. There is not just a health team doing a health

audit or a local government team doing a local government audit. Those teams will undertake both the financial audit and any value-for-money studies that are relevant to their portfolio. Therefore, the portfolio of the 11 councils will be spread across a number of directors in the Audit Office. They are responsible for the financial audit for that council. If any concerns are raised or issues are brought to us about that council, that director, in the first instance, and I will look into those issues.

Mr Allister: Does one director cover one council or more than one?

Ms McCready: One director will cover more than one council.

Mr Allister: How many?

Ms McCready: It varies. Four of the audits are contracted out, and they report in to a director with two other councils. A second director will cover the remaining councils.

Mr Allister: Does that director stay affiliated to that council for several years?

Ms McCready: Right across the Audit Office, as part of our quality review process, monitoring and ethics, we have a five-year rotation policy, with the potential to extend by two years. No director will continue to remain with their clients more than five or seven years, whatever is deemed appropriate.

Mr Allister: Do you not think that that is too long? Is there not a risk of that director becoming too cosy in the relationship with the council?

Ms McCready: I do not believe so. It is a balance. We do that in line with guidance, so we are consistent with accounting guidance and regulations.

Mr Allister: You would be aware, for example, of something being brought to your attention about a director affiliated to a council, who, instead of dealing with an issue, is saying that the main issue is to repair relations with the officers.

Ms McCready: I am not at all aware of that. I will be aware of all the issues that come to the office about local government, and Kieran is very much aware with regard to central government. Those matters will be investigated, looked into and pursued, but there is a balance. If we rotated teams of audits on an annual basis, we would not have the same level of experience and understanding of that organisation. It is important to have an element of continuity, but the rotation is important.

As an office, every member of staff will declare any conflicts of interest annually. If they have friends or family in any audited bodies, we take it into consideration whether it is appropriate that they are involved.

Mr Allister: What happens if you get a complaint that a director did not adequately investigate a matter?

Ms McCready: During any investigation, I will be aware what is going on and will feed back to those involved. Before anything goes out, as local government auditor, I need to be satisfied with that. If the individual is not satisfied, it comes into our complaints process, in line with our policy.

Mr Allister: How is that handled?

Ms McCready: I think that we have included some information on our complaints policy. It is also in our annual report and is published online. We have a three-stage process for reviewing and investigating any complaints that come into the office.

Mr Allister: Thank you.

Mr Chambers: If a complaint or concern is brought to you and your office undertakes to look into it, do you have a process for keeping the person who brought that to your attention updated on the progress of your investigations and deliberations, or do you maintain radio silence until you have come to a conclusion? In my experience, the onus seems to be on the person making the complaint to keep

contacting you to get the right person and a response. In most cases, it is very much a holding remark rather than a proper update on what is going on.

Ms McCready: I recognise that. Our policy certainly recognises that, as part of good practice, it is good to keep those individuals informed on progress. Sometimes things can be resolved fairly quickly and sometimes it takes a little bit longer, but your point is valid. We absolutely aspire to keep the individual informed on progress, and we recognise that that would be good practice.

Mr Chambers: It is important. Thank you.

The Deputy Chairperson (Ms Bunting): You spoke about the five-year rotation policy, with the possibility of a two-year extension. How do you arrive at those figures and what is the rationale for a potential extension?

Ms McCready: There are a couple of reasons. In the main, we hold to five years, which is deemed good practice. That applies to all the team members involved in the audit, so if there has been a change and turnover in the team below director level, there could be merit in looking at the continuity at director level. If there have been issues in a particular audited body that are significant or high risk, there could be merit in considering that as part of the extension process. We go through that annually. Our technical team engages with me and all the directors for the whole teams, not just the directors. That rotation is looked at right across the office.

The Deputy Chairperson (Ms Bunting): How often is a two-year extension granted?

Ms McCready: It will vary. In the main, we try to hold to the five years, which we see as good practice. Going back to our earlier point, I think that there has to be a balance between continuity of knowledge and the risk of conflict. In the main, we seek to go to five years, but, on occasion, if we feel that it is meritorious, it is within our policy to go to seven years.

The Deputy Chairperson (Ms Bunting): I have a couple of further questions, if I may. I note that, since 2018, you have had a new governance structure, and you said that that has bedded in. That relates to your advisory board, your audit and risk assurance committee (ARAC) and your remuneration committee.

Ms McCready: Yes.

The Deputy Chairperson (Ms Bunting): Could you give us an indication of your previous governance structure and the changes that have been made? What made you decide to instigate the business transformation programme (BTP)?

Ms McCready: The governance changed as I came in. Rodney, do you want to explain the previous governance, and then I will pick up on the BTP? Is that OK?

Mr Allen: We used to have what was called an advisory group to the C&AG. We now have an advisory board. The whole membership of that was changed. We went out to the marketplace and recruited new members. We had an MLA on the recruitment panel for new members. In the previous structure, the terms of reference for each individual component were not clear, and we did not have a remuneration committee. The remuneration committee is brand new since the 2018 period to which you referred, Chair.

To my mind, those are pivotal changes. I do not underestimate the impact that the change in people has had and the rigour that went into the process to put the new advisory board in place in 2018. Hopefully, at some stage, you will deem it appropriate for our chairperson to come here to talk to you. He is a retired senior partner from one of the four large accountancy firms.

The Deputy Chairperson (Ms Bunting): How were the people on the previous advisory group appointed? Was it in the same way that those on the current advisory board were appointed, or was there a different process?

Mr Allen: It was a very similar process. However, we put much more effort in this time into the recruitment process and into supporting that. We went out into the marketplace and, if I may so,

offered up the attractiveness of the positions. Previously, there was maybe a more limited pool of applicants.

The Deputy Chairperson (Ms Bunting): What made you decide that there needed to be a change?

Mr Allen: There had to be a change anyway, because the previous people's contracts were due for renewal. It was a good and opportune time to sit back and look afresh at it and to look at other audit institutions across the UK to see how they go about their business. We constantly benchmark ourselves against others. Why reinvent the wheel if we can see something somewhere else that can work well for us?

The Deputy Chairperson (Ms Bunting): Thank you. Pamela, you were going to come back to me about the business transformation programme.

Ms McCreedy: Yes. As you know, we are in the process of redoing our corporate plan. We started that work in autumn 2017. Again, the annual report outlines the three strategic objectives for the organisation. BTP was our mechanism for delivering those objectives. Beyond recognising our core delivery of financial audit, public reporting etc, and against those objectives on adding assurance and contributing to the transformation of public service, we identified, from looking in at ourselves, key things that we as an organisation wanted to progress. The programme was a way of saying, "If these are our corporate objectives, beyond core delivery, what do we need or want to do to improve our operating environment, both from our audit practice, our staffing, our accommodation etc, which will enable us to deliver on our corporate objectives?". We put them together to provide a real visual of how they all contribute to deliver our objectives. Rather than just have single projects sitting about, we wanted to provide a cohesiveness to bring it together. We could see that, by doing those things, we could deliver the organisation's corporate objectives.

The Deputy Chairperson (Ms Bunting): Thank you very much. Emma, do you have anything to add, or are you happy enough? Emma is OK. Are members satisfied? Jim, do you want to come in?

Mr Allister: I want to pick up on the issue of corporate governance. The chair of the board is, of course, appointed by Mr Donnelly, as are all the non-executive members. Is that right?

Mr Allen: That is correct, as a result of a panel interview, with others on the panel with him.

Mr Allister: Yes, but he whose empire is being scrutinised, as it were, insofar as the board scrutinises that, appoints the chair and the non-executive members.

Ms McCreedy: He does, in his capacity as corporation sole. That is correct.

Mr Allister: Your website says that the board will, for example, meet four times a year. Has it been doing that?

Ms McCreedy: Yes, it has.

Mr Allen: Yes, it has.

Mr Allister: The last time that I looked at your website, I saw that the board had met once in 2018, according to the minutes, and it met three times, according to your minutes, in 2019-2020. Is that right?

Mr Allen: Potentially. I am intrigued about 2018. I would need to check that. I think that, in 2019-2020, it met three times; it did not meet a fourth time.

Ms McCreedy: In addition to that, the advisory board meets in a workshop capacity in the organisation, so the meetings are significantly supplemented throughout the year.

The Deputy Chairperson (Ms Bunting): Are there dates for all those meetings in the report?

Ms McCready: There have certainly been more since March. We had a workshop with the board a couple of weeks ago, and, indeed, there will be a second meeting on 3 December. The board had an appetite to meet four times a year.

Mr Allister: A few weeks ago, the website showed only two meetings in 2019-2020.

Ms McCready: There was a workshop a few weeks ago.

Mr Allister: A third one has now been added, even though it is six or seven months since that meeting happened. Has someone been tidying up the presentation?

Mr Allen: I would need to take that up with the team. I am just looking at page 46 of our annual report. It met three times in 2019-2020: 30 May and 8 October in 2019, and 11 February this year.

Mr Allister: The 11 February meeting was not on the website until very recently.

Mr Allen: I would need to check when the board met subsequent to 11 February. That subsequent meeting would agree and clear the minutes, and only then would they go on the website.

Mr Allister: I see. Have there been any private meetings that would not go on the website?

Mr Allen: Private meetings?

Mr Allister: Meetings whose minutes would not appear.

Ms McCready: No, not a meeting.

Mr Allen: There was a workshop to develop our strategy in and around our corporate planning process, but a short minute is prepared for that.

Mr Allister: Your report states that your risk assurance committee met on 25 November 2019. There is no such minute on the website.

Mr Allen: I will check that and come back to the Committee. I hope that that is just an oversight, but I will check it and get clarity for the Committee as soon as possible.

Mr Allister: OK. Thank you.

The Deputy Chairperson (Ms Bunting): Members do not have any more questions. In that case, Pamela and Rodney, thank you very much for coming. No doubt, we will see you again: there is budgetary stuff that we have to go through.