Northern Ireland Assembly

Audit Committee

OFFICIAL REPORT (Hansard)

Budget 2021-22: Northern Ireland Audit Office

9 December 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 welcome Mrs Pamela McCreedy, chief operating officer at the NIAO, and Mr Rodney Allen, director of corporate services at the NIAO. You are both very welcome. I invite you to make a short introductory statement.

Ms Pamela McCreedy (Northern Ireland Audit Office): Thank you very much, Chair, and thanks for having us today. We met a couple of months ago with regard to our budget, and I gave some outline views, so I will not necessarily repeat that. As we are in our corporate planning process and looking from 2021 to 2024, we are reflecting that we are operating in a different environment from that of the last corporate plan, notably with the Assembly being back, Brexit, COVID etc. A lot of the measures that we identified around how we add value, looking at our scrutiny role and how we support public-sector transformation and, indeed, how we are a high-performing organisation ourselves continue to be very relevant as we look into the three years ahead. As we focus on 2021-22, there are a number of things that reflect that, particularly around growing our talent and growing our staff and capability in the organisation; focusing on our digital transformation; looking at our audit methodology; and looking at the relevance and breadth of our reporting to support the Assembly and the Public Accounts Committee (PAC).

Those are the key factors to us as we reflect on the budget going into 2021-22. That is all I am going to say at this point, Chair.

The Chairperson (Mr McCrossan): That is short and sweet. Thank you very much.

Ms McCreedy: We pretty much covered it before.

The Chairperson (Mr McCrossan): Yes, we did.

Ms McCreedy: I think that you will be familiar with it. It is in the packs as well.

Ms Bunting: Pamela, thank you very much for that, and thanks to you and Rodney for coming along. We are keen to drill down on a few things to make sure that we fully understand them. In the paperwork that you have given us, there is a letter from the Comptroller and Auditor General (C&AG) that indicates that there will be:

> *"a reduction in my Office's income received from the National Audit Office, who will require us to do less audit work on European Agricultural Funds following the UK's exit from the EU."*

On the other side of that, there is the auditing of the renewable heat incentive (RHI) implementations. How do those counterbalance? On the one hand, there is a reduction, but, on the other hand, there is an increase, and it seems to me that there is quite a substantial increase to your budget. How do those counterbalance? How do they offset each other? That is my first question.

I will move on to the second question. In the documentation provided, you indicate:

> *"at present approximately 30% of our audits ... are contracted out to accountancy firms."*

I would like to have some understanding of how that works and how you determine which auditors will be used. Is it all the same auditor? What are the opportunities to find value for money in that contracting-out of work? Moreover, you will have seen the letter from the Department of Finance that indicates that your budgets are reasonable but that you should work from your baseline. On that basis, if you were to work on your baseline, can you indicate to us, please, how you would prioritise, what would be cut and what the impact would be on your services?

Ms McCreedy: I will take those in turn. I will do a little bit on the first one and go to Rodney on the income as well. You are quite right: we have referred in the pack to the reduction in income from the European agricultural funds (EAF), which is the audit work undertaken on behalf of the National Audit Office (NAO) on the EU funds. There has been a little bit of uncertainty around that over the past year. We are certainly getting greater clarity on that as we look into 2021-22. We had expected a more significant reduction, but there have been some changes to that as we look into 2021-22. There is a bit of a stepped approach to the reduction in income, and Rodney might be able to provide a little bit more detail on that. It is quite specific work that we do for EAF, notwithstanding that there is an element of flexibility within the workforce in that versus more routine financial audit work etc. The counterbalance in the RHI work is much more around public reporting. We have spoken in the past about that. Part of the focus of the office over the past couple of years, with the reduction in the workforce, has been to reprioritise that back into skills and capabilities, with a particular focus on public reporting. We have been building that capability in the office, and we are seeking to do more of that.

We have a statutory function around financial audit work. We must do that; we have no other option but to do it. With the resource beyond that, our focus is on supporting the Assembly further in the scrutiny role, particularly around public reporting. It is not like for like — that the teams that undertake the EAF work by way of accounting financial audit also have skills in public reporting. We have to look at how we prioritise that work. It is not a straight replacement of one with the other.

Ms Bunting: No, but presumably there is still an equivalency in man-hours.

Ms McCreedy: Perhaps there is, if you take it on straight numbers of people or hours, but we cannot work like that. There is not necessarily that capability on the public reporting side. At one time in the office, they would have been two quite distinct divisions or teams. In recent years, we have sought to blend the teams so that they can interface, say, with each of the Departments. The financial audit team and the public reporting team work as a team in order to share understanding, knowledge and experience in that particular organisation. However, particularly at a more senior level — senior auditor and above — there are still people who specialise in public reporting versus pure financial audit work.

As we bring our graduate trainees or, indeed, any new auditors into the organisation, we seek to get them experience across both those aspects of work and to get involved in financial audit and public reporting. We are looking at a development programme into 2021 whereby we can support those individuals as they move into that aspect of our work. In many ways, part of the budget ask is that we can develop that capacity and expertise a little bit more as we move forward to help support additional public reporting.

Ms Bunting: To follow up on that point, is there a danger that you train these people up, only for them to be poached by private firms?

Ms McCreedy: There is a risk right across the spectrum. We have increased the number of graduate trainees coming into the organisation. There has been a difficulty in the past in recruitment at auditor grade across Northern Ireland, so it is not just a challenge for the Audit Office. It is a challenge for the Civil Service and for firms as well. Our focus was on increasing the number of graduate trainees and bringing them through the organisation to get experience with a view to seeking to retain a number of them. Some people's career paths may be different. They could move to the Civil Service or the private sector. It is always a risk. It is about their appetite for and enjoyment of the work that they do, as far as public-sector audit goes versus private-sector audit.

Ms Bunting: What are the trends in that regard?

Ms McCreedy: It has changed over the past number of years. We recently concluded bringing in our graduate trainees. We call it our careers fairs, where we bring them in. This year, we are seeking four to six graduate trainees. In prior years, we would have had 50 or 60 applications for those posts, but this year we had 138. That does not just reflect the marketplace; it is also very much what we have done through engagement with Queen's University, Ulster University and others — very much our brand and promoting what we do. A lot of that has been picked up on social media, which the graduate trainees can see and access. We do guest lectures in the universities. Everything is about raising the profile of what we do and what we are as an organisation. From that point of view, the calibre has been outstanding this year. We have a shortlist of 22, and the interviews are next week. Having graduate trainees coming into the organisation is a really important part of our recruitment. For about 18 or 24 months now, we have been recruiting at auditor level, and a number of those individuals have been successful and have moved substantively into the organisation.

Is there anything else on the income side, Rodney?

Mr Rodney Allen (Northern Ireland Audit Office): Retention has been very good, Joanne. The contract has changed over the years. Stepping back into history, we used to train our accountants in the Chartered Institute of Public Finance and Accountancy (CIPFA) qualification. Back then, they had almost an automatic right to stay with us once they became qualified and moved through the grades. That was unsustainable, so we changed that. We now train our accountants in the chartered profession, and then they reach the end of their 42-month contract with us and that is it; it is terminated. However, we are trying to be in a situation where we are constantly in the marketplace looking for auditors. A lot of those really good people are coming back to is. Going back to the heart of your question, we have lost some people to private-sector firms, and they have gone to build a career elsewhere. We have to accept that that will happen. We have lost some to the public service, and that is fine, because if we have invested in training these people up and they have become really good accountants, the wider public sector gains. There are some really good people. We cannot provide a career path for everyone, because they are talented.

Ms McCreedy: We also recruit heavily from the private sector at the auditor grade. It is swings and roundabouts a little bit.

Is it OK if I keep going? The second question was around contracting out. We touched on that a little bit the last time. Approximately 30% of our financial audit work — just financial audit, not public reporting — is contracted out. We touched back on the precedence for that from years ago and why that was the case. The majority of the reason for us is really the peak — with the exception of 2020 — where pre-summer-recess certification places a real bulge on demand for work to be done, particularly in the April/May/June period. If we staffed to fully service that work, we would have people who would not be busy for the remainder of the year. That, in part, is the reason.

We re-tendered that a couple of years ago. We got into a rhythm that so many audits would be tendered each year, and we tried to catch up with that and put it in a new place. We went full Official Journal of the European Union (OJEU) and took a very different approach to it and set a five-year contract. Slowly but surely, any of those that still had a period of time on them have been coming into that. Hence, there is a little bit of an increased cost going into next year. A large focus of the re-tendering was on quality, and that is not to say that there was a flaw in the quality, but we wanted to invest more heavily with the organisations to ensure quality, and we put specific requirements in the tender specification around that.

We have a very rigorous monitoring process where we engage with those organisations. There are regular assessments that the organisations have to provide, and we meet them on a formal basis etc to assure ourselves of the quality. There are a number of organisations; it is not one organisation. At the moment, PwC, Deloitte, Grant Thornton and ASM are mainly the private-sector firms that work with us. I think I mentioned that there is a slight difference in Northern Ireland in comparison to some of the other jurisdictions, where those private-sector firms will certify directly to the government. In Northern Ireland, they do not. They provide a shadow audit certificate, and the C&AG still certifies the accounts. It is very much that they undertake the work and provide their view and certification on it, but we still have a role in that and we still undertake a little bit of additional work and provide an additional layer of scrutiny, review files etc.

To give you assurance on that, I will go back to who, what jobs and why. It is risk assessed, so anything of particularly high risk is retained within the Audit Office, and we undertake that work. That is a priority for us. In the past, the health service audit came into the Northern Ireland Audit Office. At a point in time, the health service audit sat separately, but it came into the office a number of years ago. It is a significant volume of work and, again, it is significant in the pre-summer recess period. A significant amount of the health audit is contracted out. However, for example, one trust remains with us in addition to all the resource accounts — that is, the departmental audit is retained in the Audit Office. There is a selection of NDBPs etc that go to the private-sector organisations. Some areas of specialism, such as pensions, for example, are contracted out, and roughly a third — equal ratio — of the local government work is contracted out.

The Chairperson (Mr McCrossan): OK. Just in terms of —.

Ms Bunting: Excuse me, Chairman. We did not reach the point about prioritisation, cuts and impact on services.

The Chairperson (Mr McCrossan): Oh, sorry.

Ms Bunting: Those are big issues for me.

The Chairperson (Mr McCrossan): That is fine.

Ms McCreedy: We have built into the budget what we believe we need to build that staff base after taking quite a significant reduction, as outlined in the paper. After a reduction of 40 people, we are trying to build the headcount back up to support the organisation and the Assembly in its scrutiny role. The additional £425,000 that we have put into the budget request is to enable us to do some additional recruitment. We currently have a two-year pay deal, albeit with the caveat of funding built into that. Those are the couple of factors that require that additional funding.

I have touched on the fact that there is not an option around the financial audit side; that has to be done. Any impact on our service provision to the Assembly and to the PAC would be on the public reporting side. We have a public reporting programme that we commit to delivering over a three-year period in individual years. More pressure is coming on that at the moment, particularly in the light of COVID, and there is additional work around some of the grants work coming out of that, etc. We did re-prioritise that in-year, but we can see additional demands coming on that. The majority of our service that would, in many ways, be compromised would be on the public reporting side and the scrutiny role to the Assembly.

Ms Bunting: If you had to work within your baselines, what would happen?

Ms McCreedy: We would not be able to fulfil to the level that we have considered and engaged and consulted on with you, the PAC and others on the level of public reporting that we seek to do.

Ms Bunting: How would you prioritise that work accordingly, then, within that category?

Ms McCreedy: We would have to engage with the Auditor General on what areas were deemed the greatest priority. I think that the issue is with the extent to which that starts to compromise his independence, I suppose, around what is deemed important on that scrutiny role. It would just have to be prioritised and understood why that was the case. We would do it in consultation, but, ultimately, he would have to decide what areas would go forward for review.

Ms Bunting: Thank you.

Ms Rogan: I have a couple of questions, if possible. In case you are wondering, I have my camera off because my signal is really poor, and if my camera is on when I go to speak, I will lose everybody. That is South Down for you, and the really bad internet.

Will the data-enabled financial audit approach, which I take it is being developed at the minute, have any short-term or long-term impacts on your budget?

Ms McCreedy: You cannot see me, but I am scribbling so that I do not forget what you have asked me. This is with regard to the work that we are undertaking on data analytics.

Ms Rogan: Yes.

Ms McCreedy: We have touched on the fact that we are just past the proof of concept and are working now very much on the product and how it can support us, particularly in our financial audit work. We are collaborating with our colleagues in Audit Scotland and Audit Wales on that, so they have joined us in the pursuit of that. In addition to that, we have invested into a small team — when I say "small", I mean a couple of people — that focuses on the data analytics in the office. That is already supporting the financial audit teams during the audits. In fact, it started over the summer. We are already in the planning work for next year, so it supports them in that. There are many aspects to it. It adds to the quality of the audit. Aspects of the analytics can target the teams towards certain risk areas, for instance, and that gives us a stronger, better-quality audit. It is also supporting some of the work that is currently on the public reporting side as well. For instance, we touched on the work that we have been seeking to pursue around COVID and the grants with the Department for the Economy. In anything where there are large volumes of data, where we can match data and we can interrogate it, it enables us to do that as well.

That is the short term. On your point about going into the long term, it fits with our review on our financial audit methodology, and it does need to become an integral part of how we audit and not just an additional way or added quality, which it is doing at the moment. That is the case across all of public audit and private-sector audit. So there is a point where efficiencies should be gained from it, and there is an element of focusing some of that back in so that our work can be tailored to improve the quality of our audit work. Ultimately, there could be an element of efficiency as we go through that process. There is a twofold or two-pronged outcome, really, to that. A large part of it is increasing quality and focus in the audit, but you would anticipate that there will be an efficiency with it as well as we move forward and once we get it fully operational. It is very much at the development stage.

Ms Rogan: OK. Thank you for that. Will the proposed budget increases in the report bring the Audit Office back to pre-austerity-era levels?

Ms McCreedy: No. I will say no but pass over to Rodney, because he will have the detail on that. It certainly does not, Emma, but I will let him provide you with the detail.

Mr Allen: The simple answer, Emma, is that no, it does not. Just to go back into history, about 10 years ago, pre-austerity, the Audit Office had around about 140 full-time equivalent members of staff. What we are asking the Committee to support us on in this journey over the next three years is to get us up to 125 full-time equivalent members of staff. You will appreciate that that is very much the largest proportion of our budget, so we are still going to be about 10% shy, by full-time equivalent, compared with 10 years ago.

Ms McCreedy: I have one final point, which I remembered this morning from our session in February. The Committee commissioned RaISe to have a look at the budgets across the organisations. So, Emma, three or four organisations, one of them ourselves, had a 4·3% reduction in our budget from 2016-17 versus the remainder of the Departments, which increased by up to around 15% over that time. We are one of the few that had a real-time reduction in our budget. Even with that £400,000 increase that we are bidding for, it is still well below the baseline from a number of years ago.

The Chairperson (Mr McCrossan): Just to supplement that, obviously the renovations are ongoing in your building. The estimated cost of those has increased, as was outlined at the last meeting. An element of that building is going to be leased out. This was touched on earlier, but will the revenue raised as a result of that offset the cost, and will that make it less likely for you to be asking for certain sums of money next year?

Ms McCreedy: I will pass over to Rodney on that one.

Mr Allen: We have factored all that in, Chairman. You are exactly right: the income goes directly towards the running costs of the office. We have done a lot of work since we were last with you a couple of months back talking about the accommodation project. At that point, we were asking you to support us for £6 million. Next year, 2021-22, is when most of that expenditure will be incurred. We have reassessed some of the assumptions. I take that back; we have reassessed everything. We have done a very extensive review of the business case, using our advisers from the Strategic Investment Board (SIB) and the Central Procurement Directorate (CPD). Because we are further advanced in the process, we have stepped back our optimism bias and have reflected on the construction inflation, because the position is not as bad as the experts were saying at a point in time. That has taken another £400,000 out of the overall cost on the capital side, so we are down now to about £5·6 million. We will not know until we go through procurement where that is really going to land, but if everything is accurate and the estimates are in the right place, it should be in and around that envelope.

The Chairperson (Mr McCrossan): Just remind me: what was the original amount?

Mr Allen: About £4·3 million, I think, was the number we talked to you about, and then we went through Royal Institute of British Architects (RIBA) stage 3 and the design. If you remember, we talked about the windows and additional furniture costs etc, and that all moved in one direction in the inflationary estimates. We are now seeing that step back a bit. Next week, the accommodation board in the Audit Office is due to receive the RIBA stage 4 report, so that is us through the technical, detailed mechanical and electrical structural design stage, down to where sockets are going on floors etc. We will get another cost sense next week, but I am really expecting that it will be in and around the numbers that we are talking to you about today. The next stage, as you know, is that we move to procurement before we can decant the building in tandem with that.

Your point on the income stream: that is also modelled, and we have assumptions in. We used another expert from SIB to assist us in the assumptions, and to look at the market and the likelihood of getting that rental stream etc. So it is all built in to support the business case that justifies us being still on the right path with the project.

The Chairperson (Mr McCrossan): What is the estimated income that will be received from rent?

Mr Allen: Let me turn to my detail. Off the top of my head, Chairman, it is in the region of £150,000 per year.

The Chairperson (Mr McCrossan): Do you foresee any difficulties, particularly given the current climate, in leasing such premises when there is a change towards more working from home, particularly in terms of office space?

Ms McCreedy: I will take that and let Rodney find his details. There were two elements to that for us. There were a number of options as we considered the refurbishment for ourselves. We could have left the wing — the piece that would be leased out — as it was and not refurbish it. However, we took the view that, if we refurbished it as well as our own, we had a better chance of securing a tenant when we went to market. It is not a huge space. As I mentioned, we have had two tenants in the space over the past couple of years. On reflection on COVID, usage need and the square footage that is needed by small to medium-sized organisations, it is a good-sized space. The feedback from our colleagues in the Strategic Investment Board is that it is a marketable space, especially if it is refurbished to a good standard. Nothing is certain, and that is built into a number of our risks and assumptions in our business case. We have built in periods of time that it would take to replace a tenant, if we had to do so, or if we were not successful etc. A lot of those assumptions around periods when we might not always have a tenant are built into the costings in our business case.

Have you found your detail?

Mr Allen: No, I have a copy of the 55-page business case, but I do not have the appendix that has that detail. I am happy to —.

Ms McCreedy: It is in the region of that. Our rental income for that space has been ad hoc as we have consolidated ourselves into the front wing of the building. We have been securing around £50,000. As we move forward in a more substantive way, we will be in a very different space. All of the accommodation has not been rented out or leased out at the same time.

The Chairperson (Mr McCrossan): Obviously, the parts that are not leased out will be liable for rates, albeit vacant rates, and you will be liable for that.

Ms McCreedy: Yes.

The Chairperson (Mr McCrossan): Considering the climate that we are in, is there a significant cost of rates on that?

Mr Allen: Again, we built the risk associated with all of that into the business case. Our rates bill is in the region of £180,000 or £190,000 a year. We are leasing out about 40% of the building. We will continue to pay the rates in full and charge against the tenant. There is always risk associated with rates and service charges.

The Chairperson (Mr McCrossan): Just to be clear before I move on to Alan Chambers and Jim Allister, the estimated rent is inclusive of rates and service charges?

Mr Allen: No, we do a basic rent, and on top of that goes the service charge and the rates. We get a gross income, so it is whether we compare gross against net. We get a gross income, and of course it nets off against some of the standing costs, which are the rates and services.

Ms Bunting: So is that £150,000 a year gross or net?

Mr Allen: That is net; it is the rental income. Joanne, you will appreciate that I need to have the detail on those figures in front of me.

Mr Chambers: Am I correct in assuming that it is more cost-effective to carry out audits in-house than to outsource them? If that is the case, what is the percentage difference in the cost of doing it in-house rather than outsourcing? When an audit is carried out by one of the outside companies, do they do just the spadework? Do they come back with recommendations at the end of the audit, or does your office actually come up with the recommendations and conclusions at the end of the audit?

Ms McCreedy: Thanks, Alan. I will pick that up, and Rodney can come in. One of the advantages of having a mixed delivery is that we are able to benchmark the costs of our audits with the audits that are contracted out. In the main, those compare favourably. It is not to say that one is exceptionally more expensive or cheaper than the other. In the ballpark, they are quite comparable. The organisations undertake the complete audit. They audit the organisation from start to finish; they undertake that work. They take that right through to the report charged with governance and report back to the relevant audited body. Our teams that are involved with that sector may also attend those audit committees. For instance, if we are not conducting a trust audit, the director who is responsible for health will still be involved in the planning, understand what is happening and sign off, in many ways, the audit work that will be undertaken and will be aware of the issues. We also need sight of all those audits, but, substantively, the teams undertake the full scope of the audit work. Have you anything more to add, Rodney?

Mr Allen: This is all part of the reason for contracting out. We test ourselves against the market when we undertake the process. The contracting out goes back to 2001 and the Sharman review. Lord Sharman recommended that it was appropriate to have in the region of 25% to 30% of public audit with private-sector firms, and one is to test that tension in costs. Following a recent round, Alan, we noted that in comparable audits — Pamela made a point about the risk profile associated with them, and I emphasise that we need to compare like with like — we are in the same space if we look at it purely on the basis of cost. There is not much between the cost of the Audit Office doing it and the cost of a private-sector firm doing it. There is very little difference, we are splitting hairs. They do it all. They produce a full report, including recommendations. You will have seen those in other arenas in the report to those charged with governance, as it is called, or, in my old language, the management letter comes through. The firms draft that, and it goes back to the earlier point about our looking for better quality. A few years ago, we found that, on these contracted-out audits, we were not getting much by way of recommendations. Such added value and improving the internal control environment, for instance, in an organisation was not coming through compared with what we were doing in our in-house audits. We have been looking for firms to provide better recommendations to add value through that commitment.

Mr Chambers: Thank you.

Mr Allister: I want to go back to Joanne Bunting's first question because we did not get anything like an adequate response. She asked about loss of income in losing the EU agricultural funds auditing. Can you quantify that?

Mr Allen: Yes. At the moment, it is in the region of £600,000. This is a big chunk of business for the Audit Office. We are a consortium with England, Scotland and Wales, and it is driven by the National Audit Office on behalf of the UK. The National Audit Office bills the EU, and that money is divvied out amongst the regions, of which we receive about £600,000. That has grown over the years because of the amount of work required on European agricultural funds. That is tailing off now with the exit from the European Union. You will see the net effect of that in the tables that we provided. That £600,000 is tailing off over the next three to four years. We are losing that full income stream.

Mr Allister: In 2021-22, the year that we are looking at, what will your income be from that?

Mr Allen: We are down about £200,000, so we are looking at £400,000. Going back to Joanne's question, that frees up £200,000 of resources next year, so we can move those people across into our public audit stream — our reporting stream — and the work that we provide to the Assembly.

Mr Allister: Where you could save that money.

Mr Allen: No, we need those people to deliver. They come into the full-time equivalent figure. We are simply reallocating them, but we are losing the income stream, so it comes with a cost.

Mr Allister: You will still have £400,000 from the EU audit work.

Mr Allen: That is right.

Mr Allister: There is vague talk about RHI oversight. Can you put a figure on the cost of that?

Ms McCreedy: I will pick up on the RHI work, which Joanne asked about earlier. A senior auditor is heavily involved in that aspect of the RHI work, but it is very much a blended response. I mentioned that we will look at this from specific topics and themes coming out of RHI. For instance, capacity and capability was an issue coming through in the RHI report. We have just concluded that work, and it has started to go through PAC. We have issued good practice guides: 'Raising Concerns', which was a thematic issue from RHI, and 'Records Matter', which was also an issue.

Mr Allister: How much is all that costing?

Ms McCreedy: I can come back to you with the budget figures against each of those topics. I do not have those to hand at the moment.

Mr Allister: If we are to be satisfied that you need what you say you need, how can we ever be satisfied if we do not have such component figures?

Ms McCreedy: I can certainly get you those figures. For each of those studies, we develop a plan and have a budget, and, when we conclude the studies, we have actual costs. It is easy to get those figures for you, and I am more than happy to do so.

Mr Allister: What are your efficiency savings for next year?

Mr Allen: I will pick up on the first question. We are committing in the region of £150,000 a year on all those different ways of following up on RHI. Maybe that is the figure that you were looking for.

Mr Allister: No. In the context of the Department of Finance saying to us that you will be required to live within your opening baseline and absorb significant pressures, what efficiencies are you planning?

Mr Allen: We have efficiencies; it is in our paper. We had estimated that all our costs would be about £600,000, but instead we are down to £425,000, so we have already found £175,000 before we have had anything. We are sighted of the Department's letter, and we acknowledge that it has asked that consideration be given to the wider public-sector landscape.

Mr Allister: When you say that you have already found £175,000, should we therefore conclude that there is more to be found?

Ms McCreedy: A big part of the costs to which you refer is that we have built into our budget bill that £425,000 of additional costs. In many ways, the efficiency is that we do not do that; we do not recruit the people whom we anticipated that we would need going into 2021-22. Therefore, you just do not incur some of that cost.

Mr Allister: I want to ask about your staffing. You went into the voluntary exit scheme (VES), which promised long-term savings.

Ms McCreedy: Yes.

Mr Allister: You went in with 140 staff, you emerged with 102 and now you are shooting back up to 125, with the pay bill being the highest that it has ever been at £8 million. Where are the long-term savings from the exit scheme?

Ms McCreedy: You are right: we crystallised those savings, and there was £3 million of savings. In response to a question from Joanne at the last meeting, we got back the profile of that. We restructured the organisation and removed some senior director and audit manager grades, and we invested in the restructured capacity and capability of the organisation. Therefore, for us, there has been an aspect of reinvesting into the skills that are required for the organisation to deliver against its requirements.

Mr Allister: However, you essentially want to restore —

Ms McCreedy: An aspect.

Mr Allister: — 60% or maybe more of the staff figure that you had.

Ms McCreedy: We are doing that through a more efficient approach, which is through the graduate trainee programme, the high-level apprentice and by recruiting in an auditor grade and training those people to undertake the aspects of the work that we need them to do. Therefore, we are ensuring that we have the right capacity and capability in the organisation to deliver. That has very much been a focus of our corporate plan over the past couple of years.

Mr Allister: With regard to income streams, apart from the leasing of the property, have you any discretion or capacity to charge for your services? For example, you audit councils, so do you charge them?

Ms McCreedy: We do.

Mr Allen: Yes.

Ms McCreedy: Approximately 40% is hard-charged. There are aspects of the audit that we call "notional" —

Mr Allister: Forty per cent of what?

Ms McCreedy: Forty per cent of our audit work is hard-charged.

Mr Allister: How do you charge that? Do you charge that at the rate that PwC would charge, or do you charge at a different rate?

Ms McCreedy: We have our hourly rates that we have identified in the office against our costs, and that is based on our cost management information.

Mr Allister: How often are they reviewed?

Ms McCreedy: Annually.

Mr Allen: Every year.

Mr Allister: What is the uplift?

Ms McCreedy: We are at approximately 5% on the charge outrates, as we call them. Again, we compare those with the contracted-out audits by way of a comparative cost exercise.

Mr Allister: What is your income from charging out?

Ms McCreedy: Rodney, do you know the income figure from our hard charge from what is contracted out?

Mr Allen: It is just short of £2 million. Our hands are tied in many ways as, under statute, we cannot charge for most of our work.

Mr Allister: Yes.

Mr Allen: However, we charge for the work for which we can charge, and we charge 100%.

Mr Allister: So, for example, if you bring in about £2 million on the hard charge and you have a pay bill of £8 million, is the £2 million paying for a quarter of your staff or not?

Mr Allen: The £2 million is covering roughly a quarter —

Ms McCreedy: The costs of the office.

Mr Allen: — 20% of the gross costs of the office.

Mr Allister: If those staff are going to cost you £8 million, what is the productivity of those in terms of the hard charging?

Mr Allen: You have lost me a wee bit with the "the productivity". I am struggling with the question.

Mr Allister: You send in expert staff to audit a council. At the end of that, you present the council with a bill. Does that bill cover the costs of those staff?

Mr Allen: We are required to charge 100% of our costs. In the environment in which we work, we charge —

Mr Allister: Is that man hours, basically?

Ms McCreedy: Yes.

Mr Allen: Yes. Therefore, it includes salaries and overheads. It is calculated at a rate that absorbs all the costs of the office.

Ms McCreedy: It is not just the staff costs; it is the contribution of those staff to that work. It is an absorbed cost.

Mr Allister: If you did not get the uplift that you are looking for, what happens?

Ms McCreedy: As I said, we have a statutory requirement to do one aspect of our core delivery in the office. We have financial audit work, public reporting, the work we do around counter fraud etc. Some of that is not negotiable; we have to do it. That is the statutory assurance to the Assembly.

Mr Allister: Can you put a figure on that?

Ms McCreedy: As I said, the focus is on the studies, the public reporting and the scrutiny to support the PAC in the Assembly. There would be a reduction in what we do, and there would have to be discussion around priorities.

Mr Allen: If the Committee is not inclined to approve the £425,000, we will not have that resource. That could be, for talk's sake, four reports to the PAC. I am trying to contextualise it for you. That would be four reports that we would not be able to produce and take through the accountability of PAC.

Mr Allister: You have a safety net in the monitoring rounds, yes?

Mr Allen: We could bid. It does not provide much certainty, but of course we could bid. Our preference, as you can imagine, is to try to hold and protect that position that we want to achieve, and then, as we —

Mr Allister: I am sure that that is the target. It is the desirable position for every Department, but not everyone can get what they want.

Mr Allen: I appreciate that, Mr Allister, but the C&AG had to write to the Secretary of State in 2019 because he felt that he had a budget that did not enable him to deliver, for the citizens of Northern Ireland, a proper independent public audit function. That is what we are asking you for: support in delivering a proper public audit function. If, in turn, you point the baseline at me, we will surrender at the earliest opportunity to the Department so that best use can be made of public funds, if we find that we cannot recruit.

Mr Allister: Have you a history of surrendering?

Mr Allen: We do. It goes back to the earlier conversation about how we can recruit, when we can do it and building that base up. We can fully justify a significant payback period on VES. We saved £3 million and took out all those senior posts. We are now bringing posts in at the lower levels. I go back to your earlier question: we will still not be anywhere near the 140 full-time equivalent members of staff. It will still get us only up to 125 at best, and that is what we are asking you for.

The Chairperson (Mr McCrossan): We are very tight for time.

Ms Bunting: I have a straightforward question. What is the difference between financial audit and public reporting? Presumably, you will still audit the Department and make recommendations. Those will be made public and given to the Assembly scrutiny Committees and so on. What is the fundamental difference?

Mr Allen: The financial audit is the standing annual audits that we do. Year by year, when we go in to audit a council or a Department, we are required to fulfil that audit and give those opinions. That is done under statute.

There is statute, as well, for the public reporting on value for money. Those are the areas in which the C&AG and the local government auditor have more discretion to do stand-alone pieces. Those are the substantive pieces that end up going through the Assembly.

Ms Bunting: You are going back a number of years and looking at trends and patterns.

Ms McCreedy: No, these are thematic. They include our 'Major Capital Projects' report and the 'Capacity and Capability in the Northern Ireland Civil Service' report. In the main, these are the reports that go to PAC on thematic or topical issues, as opposed to giving assurance on financial statements.

Ms Bunting: How many of those do you produce in a year?

Ms McCreedy: We have a programme, which we have furnished. We have a three-year programme. It varies. There would be eight or nine substantive, large value-for-money reports, as I would call them, but we also have shorter-turnaround reports, impact reports, good practice guides etc. We produce 25 to 30 of those a year.

The Chairperson (Mr McCrossan): OK, Joanne? We are well over time.

Ms Bunting: That is lovely. Thank you.

The Chairperson (Mr McCrossan): Pamela and Rodney, thank you very much for being here, for your presentation and for answering our questions.

Ms McCreedy: You are very welcome.

The Chairperson (Mr McCrossan): Until next time *[Laughter.]*

Mr Allen: Thank you, Chairman and members.