



Northern Ireland
Assembly

Audit Committee

OFFICIAL REPORT (Hansard)

Draft Budget 2022-25:
Northern Ireland Audit Office

3 November 2021

NORTHERN IRELAND ASSEMBLY

Audit Committee

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Members present for all or part of the proceedings:

Mr Daniel McCrossan (Chairperson)

Mr Jim Allister

Mr Alan Chambers

Witnesses:

Mr Rodney Allen

Northern Ireland Audit Office

Mr Brian O'Neill

Northern Ireland Audit Office

The Chairperson (Mr McCrossan): I welcome to the Committee Mr Rodney Allen, the chief operating officer of the Northern Ireland Audit Office (NIAO), and Mr Brian O'Neill, the director of the NIAO. I advise you both that the session will be reported by Hansard and that a transcript will be published on the Committee's web page. We are slightly behind, and we appreciate your presence, but I would appreciate it if you could keep your opening remarks as brief as is humanly possible.

Mr Rodney Allen (Northern Ireland Audit Office): Thank you, Chairman and members. I will endeavour to keep my opening statement to three minutes. I will try to whizz through it.

I refer you to figure 1 in the document that we submitted to you today. It shows our budget spend, of which staff costs are 69%, contracted-out costs for audits are 14%, and office overheads, which are, basically, running costs, are 14%. The nearly 70% spent on staff costs equates to 125 full-time equivalent staff for the budget year. That has been our targeted level of growth in order to deliver our corporate plan. The Committee has supported us in that to date. I have talked to the Committee before about the recruitment market. It has been very competitive, but, nonetheless, we have been successful on two fronts in particular. We have been growing our own talent. In September, we had seven new graduates and three new higher-level apprentices join us on training contracts. We have also been successful to a certain extent in recruiting qualified accountants with relevant skills and experience to help us bring that up. All that wraps around the overall investment in growing and developing our capacity and capability to respond to developments in auditing standards and, indeed, the additional quality requirements that constantly raise the bar and drive continuous improvement in services.

The other budget area that I emphasise is our contracted arrangements with our auditing and accountancy firms and practices. This represents 14% of our expenditure base. As the paper shows, that is £1.6 million. There is some uncertainty in that area, because one contractor has withdrawn from contractual arrangements with us, so we are in the process of entering into new tendering arrangements for 15 audits.

On the income side, the position is relatively stable, except for an anticipated significant change in the third year of the budget period, owing to the anticipated end of our work on the European agricultural funds that we undertake on behalf of the National Audit Office (NAO), which reports to Europe on all of the UK funding that is received.

Our budget needs are summarised on page 4, table 1. I draw your attention in particular to the 2022-23 column, showing our expenditure of £11.5 million gross, our income of £2.9 million and the difference of £8.6 million, representing an increase of 2.1% in comparison with the current year's baseline. That 2.1% is consistent with the position that we presented to the Committee and anticipated a year ago, which, I should point out, represents the position before some anticipated inescapables. We have employer's superannuation costs for a new Comptroller and Auditor General (C&AG) — the current C&AG is not part of the superannuation scheme, but we anticipate that the next one will be — and increased depreciation costs for our newly refurbished building. We are also examining the anticipated valuation of the building when it is completed, and the potential for an impairment in value, which we have discussed with the Committee before and which we will return to separately.

That brings me to our capital budget, members. I am pleased to advise you that the refurbishment is on track to be delivered on time and on budget. Given the pace of the project, there is some uncertainty about the extent of payments that will fall due around the end of the financial year, so the Department of Finance has advised us to include around about £1 million in both financial years to allow for that. I hasten to add that, of course, it will be spent only once.

In summary, if the Committee approves our budget, it will ensure that we continue to invest in the delivery of a strong, independent public audit function that provides effective support and assurance to the Assembly in the scrutiny of public-sector performance.

That was a bit whistle-stop, Chair, but hopefully it gives you a sense of what we are asking for.

The Chairperson (Mr McCrossan): Thank you very much, Rodney. It got straight to the nub of some of the main challenges. We are having difficulties with this mic today, but am I right that you said that there was an issue with a contractor on the build?

Mr Allen: No, it is an issue with the contractors that we employ for our audits.

The Chairperson (Mr McCrossan): Sorry, *[Inaudible owing to poor sound quality]* half of that. That is grand. I just did not pick it up.

Your optimum number of staff is 125 full-time equivalent, which you hope to achieve in 2022-23. You note that any additional annual costs will be offset by "anticipated staff leavers or retirements". How does that offset play out in the figures that you have just provided?

Mr Allen: It is totally factored in. We are growing, as I have previously said to the Committee, to the 125. We are not there yet. You funded us for 120 in the current year, and we struggled to get to that. We are knocking on the door. We are nearly there, but that has had a bit of a tail that has meant that we have underspent this year again to get to the 120. Getting up to the 125 for 2022-23 will include all anticipated leavers and retirements.

Mr Brian O'Neill (Northern Ireland Audit Office): If I can add —.

The Chairperson (Mr McCrossan): What is the issue with reaching that figure of 125? Is it that you cannot get the skilled or qualified people that you require for those posts, or is it COVID-related? Is there any particular reason why you are not getting to that figure just yet, although you are close?

Mr Allen: It is solely market-based, Chairman. Most of the competitions that we have run have been successful. However, there was one where we had a number of applicants but they were not up to the anticipated standard and did not have the skills and attributes that we require, so, unfortunately, the competition did not successfully deliver anyone. Brian wants to come in, Chair, if that is OK.

Mr O'Neill: I was just going to add that we currently have 119 full-time equivalents, so we have a bit to go to get up to 125.

The Chairperson (Mr McCrossan): In your opinion, is there a sufficient number of skilled and qualified people in the market to meet what you require?

Mr Allen: I will be bold and say yes, Chairman, but that is me sticking my neck out a bit. It is market-dependent, and that is changing swiftly in all areas of recruitment. As you will see from the paper and as I mentioned in my opening comments, we have leaned a bit more on growing our own. We now have four apprentices and quite a number of graduate trainees in the organisation. We increasingly take a more strategic approach to the talent pool.

The Chairperson (Mr McCrossan): That offers good opportunities for a considerable number of people, which is to be welcomed. Have there been conversations with the universities and colleges about some of the challenges?

Mr Allen: Very much so. We engage extensively; in fact, we attend all the careers fairs at the large universities. We are very active in that space. That is the pool of graduates that we attract to the organisation.

The Chairperson (Mr McCrossan): OK. Thank you. Mr Allister, do you have any questions?

Mr Allister: Yes, I have a few.

On the issue of growing the staff, as the number of staff grows to the anticipated complement, will that reduce the level of contracting out?

Mr Allen: No, it will not, Mr Allister. The level of contracting out has been set for five years, so those contracts are fixed for the period ahead, apart from the one that I talked about that was recently withdrawn. What we have decided to do is take the opportunity to bring some of those contracts back in-house.

Mr Allister: So, five years from today, there will still be those contracting-out contracts.

Mr Allen: No. This new batch will have a five-year contract. The other ones are in year 3. We will now have two parallel processes.

Mr Allister: How do you assess whether that is value for money?

Mr Allen: On the value-for-money assessment, it is through open procurement, so, when we go out to the marketplace, there is a fully open competition.

Mr Allister: You are spending 14% of your expenditure budget on contracting out.

Mr Allen: We are.

Mr Allister: You will increase your staff, but the 14% will stay.

Mr Allen: The 14% of the budget will stay.

Mr Allister: Just square that circle for me: you will have more staff but the same expenditure on contracting out.

Mr Allen: On the basis of the budget, it is probably a bit higher than 14% at present, because we are not meeting the staffing levels that you fund us for. When we meet those staffing levels, as the diagram shows, 14% of the expenditure will go on contracted-out audits.

Mr Allister: So you are already spending more than 14%.

Mr Allen: On a percentage basis, because we are not quite at our staff base, it is a wee bit more.

Mr Allister: What are you spending?

Mr Allen: It could be 16% or 17%. I would have to have that —.

Mr Allister: How does that compare with the spend of other audit bodies?

Mr Allen: It is broadly consistent. This goes back — would you believe it? — 20 years to the Sharman review in 2001, which articulated the benefits of contracting out to private-sector firms. Remember that we are talking about budget numbers. On the volume of audits, it was anticipated that around 25% would be the optimum percentage to have with the private sector so that we benefit from its work and, indeed, it benefits from us with that added focus on regularity. That helps us to manage the peaks in the year. If we staffed up fully to do all of the audits in-house, we would have too many staff.

Mr Allister: The local government side is also integrated into the Audit Office. Can you give us any insight into how much funding is required for the local government side?

Mr Allen: I can. The local government side is wholly hard-charged. I will glance at Brian to keep me right on the exact figure. We are asking you for just shy of £12 million; local government is around or just over £1 million.

Mr O'Neill: Yes, that is it. It is in and around £1 million or just over it.

Mr Allister: That is a £1 million cost to the taxpayer.

Mr Allen: To the office, yes.

Mr Allister: And the rest is hard-charged.

Mr Allen: No. That is all hard-charged.

Mr Allister: It is all hard charged. Why do you not hard-charge for agencies other than local government?

Mr Allen: It is interesting. We do in some cases, Mr Allister. It depends on the statute that is the foundation of the organisations concerned. For instance, we do not charge for central government Departments, as we are not required to. Moving on to non-departmental public bodies (NDPBs), we charge for some and not others. It very much depends on what is on the statute.

Mr Allister: Would it not be good to have uniformity —.

The Chairperson (Mr McCrossan): We are extremely tight for time, Jim. Can you bring your remarks to a close?

Mr Allister: I was just going to suggest that we should strive to have more hard-charging, particularly when there is lack of uniformity amongst the NDPBs.

Mr Allen: There is a discussion to be had there, Mr Allister. The counter would be to put it all in the hands of the Audit Office and not charge anything. There is a discussion for consistency, one way or another.

Mr Allister: OK.

The Chairperson (Mr McCrossan): OK. Have you any final points, Jim?

Mr Allister: No, that is OK for now.

The Chairperson (Mr McCrossan): Is Alan Chambers available?

Mr Chambers: I have no questions, Chair. Thank you.

The Chairperson (Mr McCrossan): That is grand. Thank you both for being with us and for taking those questions. I apologise for the swiftness of the session today, which was due to us unfortunately

being under a bit of time pressure, but, as always, we appreciate your being with us and taking our questions.

Mr Allen: Thank you, Chairman and members.

Mr O'Neill: Thank you, Chair.