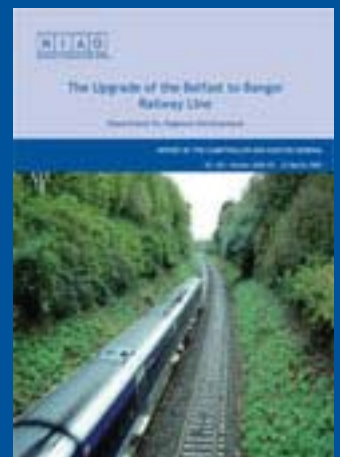
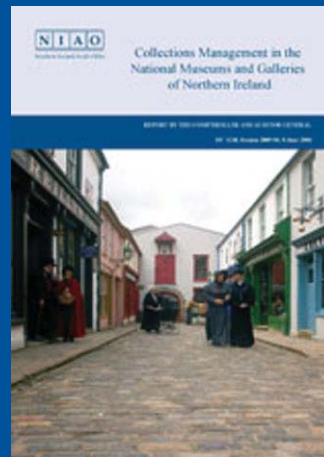
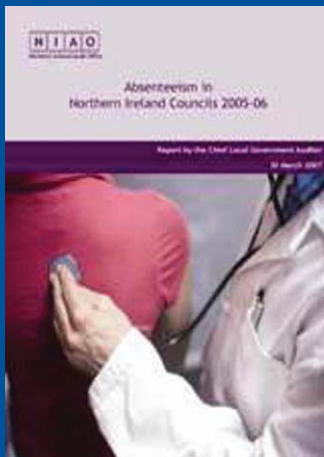


Corporate Plan

2008-09 to 2010-11



Northern Ireland Audit Office

Our Vision

To promote accountability and the best use of public money.

Our Mission

To provide objective information, advice and assurance on the use of public funds; and

To encourage:

- ◆ beneficial change in the provision of public services;
- ◆ the highest standards in financial management and reporting; and
- ◆ good governance and propriety in the conduct of public business.

Our Values

Adaptability

We will embrace change through a proactive, flexible and innovative approach to our work – as individuals and corporately.

Equality

We will treat each other equally, fairly and justly. We will be unbiased in our audit work and in our dealings with suppliers of goods and services.

Integrity

We will observe the highest ethical and personal standards and be honest and objective in our work.

Making a Difference

We will plan, manage and deliver our work in a way which adds value by highlighting good practice and identifying and securing financial savings and other benefits. We will contribute to the interests of elected representatives, audited bodies and the public.

Professionalism

We will adopt and comply with the best professional standards, practices and methodology and consistently deliver work of the highest quality. We will search for continuous improvements in the economy, efficiency and effectiveness of our work.

Valuing Individuals

We will continue to employ talented people. As a good employer we will equip, encourage and develop them to their full potential. We will acknowledge an individual's contribution to a job well done.

Working Together

We will work together, listen to and support each other, share relevant information and respect different views. We will provide opportunities for everyone to contribute to corporate objectives and work co-operatively with colleagues at all levels to achieve them.

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Introduction

1. Devolution was restored to the Northern Ireland Assembly on Tuesday 8 May 2007. During the suspension of devolution in Northern Ireland, responsibility for oversight of the Northern Ireland Audit Office's (the Office) Estimate reverted to The Public Accounts Commission (TPAC) in Westminster. The Northern Ireland Assembly has established an Audit Committee to exercise the functions laid upon the Assembly by Section 66 of the Northern Ireland Act 1998 to oversee the expenses of the Northern Ireland Audit Office. The Audit Committee held its first meeting on Thursday 7 June 2007 at which the Committee discussed with the C&AG the Northern Ireland Audit Office Estimates for 2007-08 and agreed to approve them.
2. The Office's Corporate Plan covering the three years 2008-09 to 2010-11 informs the Assembly Audit Committee of the Office's work programme and forward plans. The Plan will underpin the Resource Budget for 2008-09.
3. The Office aims to provide an audit service to the public sector which is based on recognised professional standards and which matches best practice in the United Kingdom.
4. In this planning period, the Office has the following strategic objectives:
 - (1) to provide effective support to the Northern Ireland Assembly in its task of holding Northern Ireland departments, executive agencies and other public bodies to account for their use of public money;
 - (2) to promote an effective and independent audit of local government bodies;
 - (3) to provide support to Northern Ireland public sector bodies in their pursuit of improved financial reporting and value for money, including support for efforts to combat public sector fraud;
 - (4) to meet the requirements placed on the Office by legislation (principally, the Audit (Northern Ireland) Order 1987; the Northern Ireland Act 1998; the Government Resources and Accounts Act (Northern Ireland) 2001; the Audit and Accountability (Northern Ireland) Order 2003 and the Local Government (Northern Ireland) Order 2005). This includes fulfilment of the Office's obligations under Section 75 of the Northern Ireland Act 1998 in relation to the promotion of equality of opportunity and good relations in all its policies and procedures; and (5) to value staff and develop their full potential.
5. This Corporate Plan sets out the main features of the work programme for the next three years and how each of the four Divisions in the Office will contribute to meeting the strategic objectives.

Chapter 1 outlines the Office's main achievements in 2006-07, including completion of the audit of 238 accounts and production of 11 value for money reports.

Chapters 2, 3 and 4 examine the audit functions of the Office and the key priorities and developments over the Plan period.

Chapter 5 focuses on the corporate services of the Office.

Chapter 6 sets out the Office's request for resources for the next three years.

Challenges Facing the Office:
6. There are several factors (set out in Chapters 2 to 5) which will influence the level and complexity of the Office's workload and resource needs. These include the value and type of public expenditure and revenue under scrutiny, the financial and value for money risks arising, changes in the way services are delivered and the expectations of the Northern Ireland Assembly and other stakeholders.

Restoration of Devolution

7. Consistent with its role as the external auditor of the Assembly the Office will endeavour to ensure that its programme of work complements and reinforces the strategic aims and priorities of the Northern Ireland Executive. As anticipated the devolved administration has had major implications for the Office. Increases in activity have resulted from:
 - ◆ servicing the Public Accounts Committee of the Assembly. PAC has been meeting weekly to take evidence on NIAO Reports, comprising VFM reports and selected topics arising from the audit of accounts. PAC will have held 6 evidence sessions and a further 10 business and briefing sessions from devolution until November. As agreed with PAC, NIAO provides it with a briefing prior to each evidence session.
 - ◆ providing information and advice to PAC and the Audit Committee on general and specific accountability and audit issues; and
 - ◆ handling specific enquiries on behalf of PAC and MLAs. These are investigated thoroughly and often require significant resources.
8. The C&AG's reports to Parliament were published 'by order of the House' and were therefore privileged. This is the best practice standard for public sector auditors in the UK and ensures that they are able to report their findings and conclusions to elected representatives without the threat of litigation. The publication of the C&AG's reports to the Assembly 'by order' needs consideration.

Review of Public Administration

9. In 2002, Government commenced a Review of Public Administration in Northern Ireland. It was noted in previous corporate plans that this is a major development in the future work of the office. However with the restoration of devolution the new Administration has decided to take a fresh look at implementation of the review.

10. The review has been wide-ranging and in March 2006 decisions were set out in the Government's document 'Better Government for Northern Ireland'. It is potentially the most far-reaching reform of public administration in Northern Ireland, including the local government sector, for over 30 years. There will be very significant changes to the size and nature of many bodies and a rationalisation in the number of bodies. We are currently looking carefully at the phasing of the changes and the associated potential impact on the Office (see Chapters 2, 3 and 4). While there remains a degree of uncertainty it is clear that the health sector is leading the way and this has already affected the structure of audit in the sector.
11. The extent to which the number of accounts to be audited will decrease over this planning period is not yet clear, pending decisions by the Executive on the final outcome of RPA. Any rationalisation offers economies of scale and potentially significant efficiency savings. However, the scale and phasing of this is difficult to predict. This is particularly the case as any period of amalgamations and radical structural change raises short term issues of increased control risks as bodies close and merge, functions transfer and the new bodies are faced with wider responsibilities.

The Developing Role of Audit

12. It is important that taxpayers' money allocated to Northern Ireland is subject to the same standards of scrutiny as elsewhere in the UK. NIAO liaises with the National Audit Office, Audit Scotland, Wales Audit Office, the Audit Commission, the Republic of Ireland's Audit Office and the accounting profession to ensure that our audit work in Northern Ireland keeps abreast of best practice. It participates in the Public Audit Forum, which was established by the national audit agencies to provide a focus for developmental thinking in public sector audit. It is also represented on the Public Sector Sub-Committee of the Auditing Practices Board.

13. When carrying out its audit work, the Office seeks to comply with the principles developed by the Public Audit Forum in its paper 'What Public Sector Bodies can expect from their Auditors'. Financial audit is conducted in accordance with International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board and is consistent with those professional auditing standards. The Office also aims to co-operate with and utilise the work of other review bodies, including internal audit, to improve the efficiency and cost effectiveness of audit, provide a better service to clients and minimise overlap and duplication.
14. There are a number of specific issues which NIAO needs to address in the period ahead:
- ◆ Supporting the strengthening of good governance in public services;
 - ◆ Addressing the impact of new legislation affecting local government accounting and auditing;
 - ◆ Expanding work on performance measurement and validation;
 - ◆ Helping to deliver the Government's commitment to faster closing of accounts and to Whole of Government Accounts;
 - ◆ Meeting the need for increased audit coverage of IT systems;
 - ◆ Enhancing action by public bodies to combat fraud; and
 - ◆ Supporting the development of the Accounting Services Programme
 - ◆ Preparing to assume responsibility for the audit of the 6 reconstituted FE colleges during the period of this plan.
 - ◆ Planning for the audit requirements of the devolution of Law and Order functions to the Assembly at some stage.

Forecast Net Resource Requirement

15. When the Public Accounts Commission considered the Office's previous Corporate Plan, in July 2006, it endorsed proposals to increase resources at a rate of 4.9 per cent per annum until 2008-09. From 2009-10 onwards a reducing requirement due to the changes in workload brought about by the Review of Public Administration was expected giving a figure of 3.9 per cent for 2009-10. This also allowed the Office to quickly resume a full schedule of work with a local PAC. However taking account of the challenges faced and balancing expected efficiencies including those arising from the initial phase of RPA, the Office plans to deliver its programme of work with a 2.9 per cent increase between 2007-08 and 2008-09. This is 2 per cent less than in the previous Corporate Plan and, depending on inflation, is close to a zero increase in real terms. There is considerable uncertainty about the following two years 2009-10 and 2010-11 pending decisions by the Executive on the final outcome of RPA and the possible devolution of law and order functions. It has not been possible to address these in the Plan which continues to show a 2.9 per cent increase in the following two years. This increase is expressed in terms of the net resource requirement and that is the amount requested from the Assembly as detailed in Chapter 6 and Appendix 1 of the Plan.

Endorsement by the Assembly Audit Committee

16. The Assembly Audit Committee is invited to consider and endorse the Plan. This will allow the Office to develop firm proposals for its Resource Estimate for 2008-09.

Chapter 1: Summary of Performance in 2006-07

Integration of Public Sector Audit in Northern Ireland

- 1.1 It is now four years since the largest structural change in the history of the NIAO took place. The Audit and Accountability Order 2003 provided for the amalgamation of the local government and health audit functions with the central government audit function in Northern Ireland, resulting in a substantial increase in the Office's audit remit. The integration process was largely completed in 2005-06 and the Office is deriving the benefits of the restructuring. The consolidation has enabled the office to rationalise accommodation and support services as well as standardising audit processes and training.

Promoting Accountability and the Best Use of Public Money

- 1.2 The vision of the Office is to promote accountability and the best use of public money. In doing so we look to maximise the impact of our work and develop measures which reflect this.

- 1.3 Public Value is a concept which helps to identify the wider contribution made by audit. The National Audit Office is developing a public value framework in conjunction with other audit offices in the UK and Ireland. This sets out the benefits which arise from different aspects of audit work such as:

- ◆ **Objective reporting** on the management and use of public money gives greater transparency for the taxpayer;
- ◆ **Assurance** on the financial data produced by government bodies increases public confidence that the resources have been used as intended;
- ◆ **Improving operational processes** and practices provides better outcomes for the users of public services;
- ◆ **Delivering financial savings** gives direct economic benefits which can be used in other public programmes; and

- ◆ **Improving risk management** through better preventative measures and improved controls acts as a deterrent effect on irregular expenditure.

- 1.4 The role of audit contributes to maintaining the overall quality of Government decision-making and accounting and will be reflected in the level of public confidence in the proper conduct of public business. It is not possible to fully quantify all of the public value benefits of an effective audit regime. However, there are a significant number of impacts arising from specific audit recommendations which can be measured and tracked over time. For example; recommendations to improve value for money can help to deliver financial savings and quality improvements extending over a number of years. The National Audit Office has taken the lead in developing methodologies for measuring the impacts of audit recommendations. This Office has followed a similar approach and we estimate that, in 2006-07, quantified savings and cost reductions of over £45 million were achieved as a result of our work. The Office has more than covered its cost. Prior to 2004-05, the ratio of financial impact to cost has varied between 2:1 and 4:1 but for the third successive year the Office's ratio of financial impact to cost is more than 5:1. Examples of the type of savings achieved are given in paragraph 3.24.

- 1.5 During the course of every audit, the Office seeks to promote improvements in accounting and in areas such as internal control and risk management. During 2006-07, audited bodies implemented some 328 significant changes as a result of our recommendations.

- 1.6 In 2006-07, the Office was reporting to Westminster and contributed to Parliamentary scrutiny in the following ways:

- ◆ meeting its target of providing independent audit opinions on 238 accounts, including 19 resource accounts;

- ◆ producing an annual report on the results of financial audit work, drawing Parliament's attention to significant accountability issues arising from the audits;
- ◆ publishing 11 value for money (VFM) reports against a target of 11 (Appendix 2);
- ◆ supporting the Westminster Committee of Public Accounts (PAC) in its hearings, to examine the Northern Ireland departments' management of public resources – to date 40 per cent of the Committee's recommendations from 2005-06 and 2006-07 have already been implemented by Government;
- ◆ responding to all enquiries from elected representatives, members of the public, and ensuring that information from whistleblowers is handled appropriately;
- ◆ providing independent audit opinions on Central Government Accounts in Northern Ireland in preparation for Whole of Government Accounts;
- ◆ working with departments to improve corporate governance in the public sector in Northern Ireland.

1.7 In addition, the office maintained the high level of audit support for audited bodies in meeting the challenge of producing good quality accounts. For example, during the course of every audit, the Office seeks to promote improvements in accounting and in areas such as internal control and risk management.

1.8 We also continued to liaise closely with the Republic of Ireland C&AG's Office in Dublin over the development of the approach to auditing the six North-South Implementation Bodies.

Audit of Local Government

1.9 The local government auditors were responsible for the audit of 29 local authority accounts, alongside the audits of District Policing Partnerships and the certification of grant claims.

1.10 The local authority accounts have been produced to an earlier timetable following the Local Government (NI) Order 2005 which requires councils to publish accounts by 31 October.

Promoting Good Practice in PFI

1.11 The Office's work on PFI continues to highlight best practice and promote the extensive lessons emerging from the experience of PFI in other regions. Our report, *Reinvestment and Reform: Improving Northern Ireland's Infrastructure* (HC 79, 7 December 2006), highlighted the scope for improving the information provided to the Assembly, particularly in relation to borrowings and use of PFI. It also identified scope for improving capital investment planning at both departmental and strategic level and delivery processes to minimise capital under-spends and borrowings.

1.12 In addition to promoting best practice through the traditional medium of published reports, staff have spoken at conferences, have shared the platform with public and private sector speakers at seminars and workshops organised by individual departments and have contributed articles to relevant publications. Close co-operation with the Department of Finance and Personnel also ensures that best practice points and lessons are disseminated throughout the public sector and taken into account in projects going forward.

Northern Ireland Audit Office Accounts

1.13 The resource accounts for Northern Ireland Audit Office for the year ended 31 March 2007 can be obtained on the Office website (www.niauditoffice.gov.uk).

Chapter 2: Financial Audit - Central Government

Objectives and Targets

2.1 Financial audit contributes to the Office's objectives at paragraph 4 in the introduction to this Plan. Its prime function is to provide independent assurance, information and advice to the Northern Ireland Assembly on the proper accounting and use of public resources. A secondary, but nevertheless important objective, is to assist audited bodies to improve their financial and risk management.

2.2 The objectives are achieved in the following ways:

- ◆ by providing assurance that financial statements audited by the Office give a true and fair view, have been properly prepared in accordance with relevant accounting and other requirements, and are in accordance with the authorities which govern them;
- ◆ by identifying, assessing and examining risks to propriety and financial control in central government bodies and reporting on significant weaknesses to the Northern Ireland Assembly; and
- ◆ by providing audited bodies with constructive advice that will help them improve their corporate governance, risk management control and reporting.

2.3 The targets for financial audit in each year of the Plan period are:

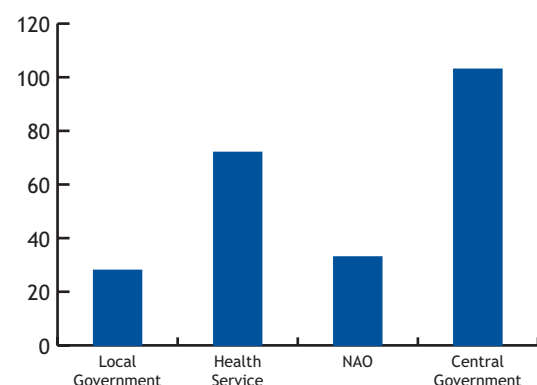
- ◆ to certify 168, 155 and 142, accounts respectively (see Appendix 3) and report on all significant accountability issues;
- ◆ to audit, within the statutory timetable, all resource accounts which are prepared to the required standard and submitted on time;
- ◆ to audit all significant accounts within three months of receiving final accounts from the audited body;
- ◆ to achieve efficiency savings of more than three per cent on those audits where like-for-like comparisons can be made year-on-year;

- ◆ to develop the audit of the validation of Public Service Agreement Data Systems; and
- ◆ to complete, within the statutory timetable, the audit of Whole of Government Accounts.

Audit Field

2.4 The Office examines and certifies the accounts of all Northern Ireland departments and a wide range of other public sector bodies including executive agencies, executive NDPBs and health and personal social services bodies. Figure 1 below illustrates our existing workload, including audits undertaken on behalf of the National Audit Office and also Local Government Audit (see Chapter 4). A more detailed analysis is included at Appendix 3.

Figure 1
240 accounts audited in 2007-08



2.5 In 2006-07, the size of the public expenditure block allocated to Northern Ireland was over £16 billion.

2.6 Those bodies where the C&AG is not the appointed auditor but has rights of access, include housing associations, higher education institutions, further education colleges, voluntary grammar schools, grant maintained integrated schools and other entities, such as Northern Ireland Water, the Northern Ireland Transport Holding Company and public private partnerships. Inspection rights can be used to bring any material matters to the attention of the Northern Ireland Assembly.

- 2.7 The extension of the C&AG's powers to audit public sector companies was included in provisions in the Companies Act 2006 which became law on 1 April 2007. The commencement order for this legislation has not yet been implemented as there are a number of practical issues to be addressed. The legislation is expected to come into effect from 6 April 2008. This has particular significance in Northern Ireland as there has been a range of problems in bodies set up as companies limited by guarantee, that have been outside the full scope of the C&AG's remit. There are currently around a dozen public sector companies in Northern Ireland.

Review of Public Administration and Volume of Work

- 2.8 The number of central government accounts to be audited could potentially decrease by nearly one third between 2007-08 and 2010-11 if the Review of Public Administration was implemented in full. The reduction in the number of accounts audited will offer economies of scale and lead to potentially significant efficiency savings. Although the impact of this will begin in 2008-09 the full benefits will accrue in subsequent years. Initially there will be a need for more intensive audit scrutiny to monitor the changing face of administration. It will be a particular challenge to ensure that the quality of public accounts is maintained as public bodies are reorganised and structural changes will raise issues of increased control risks within the new bodies faced with wider responsibilities.

Health and Personal Social Services (HPSS) Bodies

- 2.9 During 2007-08, our audit of bodies within the health and personal social services included 4 health and social services boards, 19 health and social services trusts and 6 agencies. The greater proportion of health audit work continues to be contracted out to accountancy firms in the private sector. As a result of the Review of Public Administration, this total of 29 bodies reduces to 16 bodies in 2008-09, following the winding up of

18 old trusts and the creation of 5 new trusts from 2007; and potentially to 9 bodies from 2009-10, following the proposals to dissolve the 4 health boards, and to create a new Health and Social Care Authority, and to absorb some agencies into the new Authority in 2008. Whilst the proposals reduce the overall number of health bodies to be audited, they also lead, through mergers, to more complex organisations. However, the proposal to set up the new Authority is currently being re-examined, and these figures are therefore provisional at this date.

- 2.10 At present the 29 bodies produce 72 accounts which are all subject to audit by the Office. This number will decrease over the planning period as the impact of the Review of Public Administration takes effect, with current proposals potentially reducing the total to 33 to be audited in 2008-09, and 23 in 2009-10 and 2010-11.
- 2.11 Other key developments impacting on financial audit in the Plan period are outlined below.

Resource Accounting and Faster Closure

- 2.12 Since 2002-03 departments have been required to produce resource accounts and some departments produce more than one account. In each year of the planning period, the Office will audit 19 resource accounts, including two on behalf of the National Audit Office (the Northern Ireland Office and the Northern Ireland Court Service). The Government Resources and Accounts Act (Northern Ireland) 2001 requires that resource accounts should be audited by the C&AG by 31 October and presented to the Northern Ireland Assembly by 15 November each year. However, faster closure requires resource accounts to be laid by 31st August 2007 and the summer recess in 2008.
- 2.13 Eighteen out of nineteen resource accounts were audited to the 31 August 2007 deadline. Nevertheless, the timetable for the completion of audits outlined above presents a significant

challenge for the financial audit division. The ability to meet such a timetable is very dependent upon the departments producing high quality accounts within a much tighter timescale than previously. We are continuing to work closely with departments to ensure that the achievement of these deadlines is possible.

2.14 We have developed an internal strategy to meet the faster closure deadlines. The achievement of the 2006-07 deadlines by most departments has indicated that this strategy has worked well to date. The success of this strategy is very dependent upon good communications between NIAO and departmental staff, as well as adapting the way we audit by, for example, introducing interim procedures at an early stage, and considering the reasonableness of accounting estimates used by departments. We have encouraged the larger and more complex departments to move towards the production of high quality interim accounts to ensure the achievement of faster closure deadlines. The management of staff resources continues to be a key consideration for us and the departments during the faster closure period.

2.15 With five full years of resource accounts completed, departments have made good progress with resource accounting and this has been evidenced by a steady reduction in the number of accounts receiving qualifications. The major peak of development work requiring intensive audit support has now passed, although further work is required to secure the full benefits of resource accounting. For example, full synchronisation of budgeting and resource accounting and the production of monthly management accruals accounts alongside the introduction of new information technology in accounting systems. The Office will continue to commit resources over and above the minimum necessary to certify accounts, to contribute to the realisation of the full benefits of resource budgeting and accounting. We will continue to seek opportunities to provide assessments and advice on faster closure to departments.

2.16 It is anticipated that over the planning period departments should be able to further improve the production of their resource accounts, and they should also be able to meet the requirements of faster closure provided there is a smooth migration to a new common accounting system (see paragraph 2.17 below). This shortening of the timetable will create pressures for us and for departments, will require careful planning and management.

Common Accounting System: Account NI

2.17 Account NI is a project set up by the Department of Finance and Personnel with the aim of developing and implementing a common accounting system throughout the Northern Ireland Civil Service. The development of Account NI has involved all government departments and has now reached the stage where pilot departments, the Department of Finance and Personnel and Office of the First Minister and Deputy First Minister are approaching sign off on the design of the system, ahead of implementation in November 2007. The remaining departments will implement the Account NI system in waves, spanning from Autumn 2007 to Spring 2009. Therefore, the impact of Account NI will affect the audits of 2007-08 accounts for the pilot departments and the audits of the 2008-09 accounts for the remaining departments.

2.18 It is expected that the implementation of the Account NI system will be quite a radical change to the accounting process by departments and therefore it is only sensible to anticipate that some "teething" difficulties might arise and plan that if necessary additional resources could be available to complete the audits in those early years.

Whole of Government Accounts

2.19 The Government aims to publish audited Whole of Government Accounts for the United Kingdom for 2008-09. Whole of Government Accounts include all UK central and local government activities. NIAO

audits the NI element of Whole of Government Accounts, incorporating the accounts of central government, local authorities and health trusts on behalf of the National Audit Office. NIAO directly audits most of the consolidated bodies which greatly assists effectiveness.

Contracted Out Audits

- 2.20 In financial terms 26 per cent of our financial audit costs, is contracted out to private sector firms. This is in excess of the recommendations of the Sharman Report and reflects the high proportion of contracted out audits which the Office inherited on gaining responsibility for health sector audit. We will monitor this area closely over the planning period to ensure the quality and cost effectiveness of the arrangements. This will be particularly important as we go through the implementation of the recommendations of the Review of Public Administration. The intention would be to reduce the overall proportion of contracted out audits over the period of the Plan while also extending the range of audits which are subject to contracting.
- 2.21 The financial statements of contracted out audits are of course still subject to certification by the C&AG. The work is therefore carefully managed and is subject to quality assurance review before the C&AG provides his audit opinion. Regular meetings are held with contractors and support is given to audit committees.
- 2.22 The Office's framework agreements with its partnership firms are due for renewal in 2007-08. These were put in place in 2003-04, and since then we have been developing our partnership working with the contractors. We plan to further improve these working partnerships and further develop the constructive relationships.

Improved Corporate Governance

- 2.23 The Office is very actively involved in strengthening governance in the public sector. We have seen

a significant increase in the number of audit committees in recent years, and this has resulted in an increasing amount of time spent by auditors preparing for and attending over one hundred audit committees. There is considerable added value in this as it ensures our presence in an important element of corporate governance. The Office's commitment extends beyond simply attending these meetings. We have been supporting the development of audit committees and have been extensively involved in workshops and presentations on corporate governance, audit committees and risk management and will continue to respond to requests from public sector bodies for support of this nature.

- 2.24 Despite the considerable commitment this places on senior staff time, there are clear benefits to the Office. The audited body gains a better understanding of our work and a forum is provided to discuss audit and accountability issues, including an organisation's progress in improving its corporate governance and risk management processes.
- 2.25 The Office will continue to assess risks to the proper conduct of public business and plan its work to ensure adequate coverage of issues such as regularity, probity and financial control, with a particular emphasis on identifying fraud.
- 2.26 A financial audit Director has been given specific responsibility for developing our contribution to good corporate governance. This role includes the development, co-ordination and delivery of a programme of work targeted on governance issues to help public bodies identify and address weaknesses in their governance arrangements, to disseminate best practice and to strengthen the effectiveness of those appointed to key positions on boards and audit committees. This is likely to be an important growth area in our support for government bodies over the period of this Plan.
- 2.27 For the small number of public bodies where the C&AG is not the appointed auditor, we will continue to exercise our inspection rights as required.

Private Finance Initiative (PFI)/ Public Private Partnership (PPP) Developments

- 2.28 The Office has put a procedure in place to handle the impact of a significant PFI/PPP workload, ensuring that any views reached by us on accounting treatments of PFI/PPP projects can stand up to the closest scrutiny, especially in areas where there is potential for disagreement on finely-balanced judgements. Furthermore, we have subjected our audit judgements and opinions on PFI accounting treatments to independent scrutiny by the University of Ulster. To date, the University has concurred with the views we have given on each case. Over the planning period we will provide departments with the support required to progress this initiative, and offer opportunities to discuss projects at an early point with the audited bodies, their advisers and the Strategic Investment Board on accounting issues.

General Developments Impacting on Financial Audit

- 2.29 There are a number of developments within the accounting and auditing profession and the public sector in particular that will impact on the work of the Office over the planning period:
- ◆ the convergence of UK and international accounting standards will mean that the Office will need to work closely with audited bodies to ensure changes to UK accounting standards are implemented;
 - ◆ developments in International Standards on Auditing including a likely increase in the volume of mandatory audit procedures and higher standards of documentation; and
 - ◆ as the delivery of public services through e-government expands the Office needs to ensure that it is well placed and has the capacity to respond to the complexity of IT systems, and to these new risks, and to understand the impact that IT can have on the financial audit opinion.

Validation of Performance Measures

- 2.30 One of the Sharman Review's key proposals was that there should be external validation of departmental performance information systems as a first step towards the validation of key published data. Subsequently, the Department of Finance and Personnel invited the C&AG to validate the data systems underpinning departments' Public Service Agreement (PSA) targets.
- 2.31 The broad objective for our PSA validation work, at this stage, is to help improve the quality of departments' data systems and support better performance management.
- 2.32 To date the Office has undertaken pilot exercises for four departments, examining the information systems used to record and measure performance against PSA targets. This programme of work is being developed further and the office will produce a compendium report validating the data systems used to monitor and report progress against a number of Departments' PSA targets.

Quality Assurance

- 2.33 In 2006, new quality control policies and procedures were put in place. This involved assignment of operational responsibility for the various components of the quality control system to senior staff.
- 2.34 The Office's audit quality control procedures are based on assignment manager and director reviews before audit certificates are signed. Reviews include an assessment of the suitability of the audit team to undertake an assignment and in cases where audits are categorised as high risk or have public interest concerns an independent director undertakes a further review.

2.35 An annual programme of reviews is conducted on a sample of audits after completion. These take place after an account has been certified and are led by an independent director. The sample is broadly representative of account type and complexity and the evaluation includes an assessment of the appropriateness of the opinion given. The aim is to provide the C&AG with an assurance that sufficient and appropriate evidence has been collected and evaluated, and that the financial audits of the Office comply with professional standards and Office policies. Reviewers are also encouraged to offer any observations on how the efficiency of the audit in question could be enhanced. In support of these arrangements a reciprocal agreement has been in place for NIAO and National Audit Office to review a number of each other's audits. This provides the opportunity to exchange ideas, insights and methods between the Offices and provides the C&AG with additional assurance that NIAO audits satisfactorily comply with audit standards and guidance.

Efficiency

2.36 The Office plans and organises its work to ensure that the C&AG can express his opinion on an account in the most cost-effective manner.

2.37 The main measure of efficiency is the annual pressure to reduce costs of individual audits within established standards of audit practice. However, there must also be flexibility to pursue important audit issues when these are discovered. Costs of each audit are monitored carefully from year to year and overall, the Office has a good record of achieving projected efficiency savings when allowance is made for changes in the nature, scope and volume of audit. For those accounts where like-for-like comparisons can be made, the overall cost of audit in 2006-07, in real terms, was more than five per cent below the 2005-06 outturns. Key factors contributing to this result are automated processes and better targeting of audit resources in areas of greatest risk.

2.38 Over the planning period we expect to achieve further efficiencies as audited bodies improve their financial management and controls.

Impact of Financial Audit Work

2.39 The main benefits flowing from the Office's financial audit work are the assurances to the Northern Ireland Assembly that public resources are being used in the way intended and that reliance can be placed on financial statements. The 'deterrent effect' of audit cannot be measured precisely but should not be underestimated. The knowledge that accounts will be subject to rigorous and probing audit is a positive influence on the day-to-day decisions of management to observe the principles of good corporate conduct, propriety and regularity.

2.40 During the course of an audit, we look for opportunities for improvements in accounting, internal control and risk management and, whenever possible, potential for improving value for money. During 2006-07, audited bodies implemented some 244 significant changes as a result of recommendations arising from our financial audit work.

Chapter 3: Value for Money Examinations - Central Government

Objectives and Targets

- 3.1 Value for Money (VFM) audit contributes to the Office's objectives at paragraph 4 in the introduction to this Plan. Its prime functions are to:
- ◆ provide the Northern Ireland Assembly with independent information and advice about how economically, efficiently and effectively departments, agencies and other public bodies have used their resources;
 - ◆ encourage audited bodies to improve their performance in achieving value for money and implementing policy; and
 - ◆ identify good practice and suggest ways in which public services could be improved.

Audit Field

- 3.2 We carry out studies in Northern Ireland departments, executive agencies and other public bodies where the C&AG is the appointed auditor or has rights of access and inspection (including work on behalf of the National Audit Office). This gives rise to a large and diverse audit field.

Volume of Work

- 3.3 A structured approach is adopted in the selection of topics on which to report, and an annual programme is prepared which prioritises the subjects to be examined. Studies are selected for inclusion in the programme on the basis of factors such as the potential for improving value for money and interest on the part of the Assembly.
- 3.4 The main VFM outputs of the Office are the C&AG's Reports to the Assembly on which evidence may be taken by PAC. The target for VFM audit is to deliver eleven published reports in each year of the planning period. In 2006-07, the target was met and the 11 reports are listed at Appendix 2.

- 3.5 The Office's programme of VFM work:

- ◆ contributes to continuous improvements in the quality and efficiency of public services. For example, current studies include a review of Fraud and error in the Social Security field;
- ◆ reflects the growing emphasis on performance management in the public sector. Our programme, for example, will include a review of the performance of the health service in Northern Ireland;
- ◆ adapts to developments in the way public services are delivered. This year's studies will, for example, include a review of a new computerised Land Registry system, which is also a PFI scheme. This will look at how well the scheme has been implemented and whether the public is receiving a better service;
- ◆ identifies and promotes good practice, so that experience is shared and risks minimised. For example our study on rent collection and arrears management has the potential to identify best practice and ensure that the lessons learned are implemented across all organisations in the social housing sector.
- ◆ highlights areas where there is potential for major savings in public expenditure. Our study on the levels of sick absence in the Northern Ireland Civil Service, an area of particular interest to the Assembly, should help to identify the extent to which significant savings could be achieved if absenteeism was to be reduced;
- ◆ examines cross-cutting themes. Our study on electronic service delivery will review how electronic services were planned, managed and delivered across all government departments;
- ◆ supports good governance. As part of the Office's increasing effort to promote governance in the public sector we recently published a report that will provide departments and their non departmental public bodies with advice and examples of best

practice on good governance. The report was launched at a CIPFA conference and has been made available widely across the public sector in Northern Ireland; and

- ◆ **follow-up of PAC recommendations.** An integral part of our work in the Office is to undertake follow-up studies to determine the extent to which recommendations in previous reports have been implemented. Our programme includes a review of the Department of Regional Development's progress in implementing the Committee's recommendations on Road Openings by Utilities.

Audit Approach

3.6 The production of VFM reports is carefully managed. For each investigation a timetable is prepared, setting dates for completion of the main stages leading up to the report to the Assembly. However, achievement of the target dates is dependent on the quality of financial and management information available from auditees; on our performance in completing fieldwork and drafting reports and on the co-operation of departments in responding to queries and commenting on drafts. Reports are often critical of departments, but every effort is made to liaise with senior management in Departments, during the course of studies, to maintain good relations and ease the process of clearance.

3.7 During direct rule, a small number of reports were taken each year by PAC at Westminster. However, following the return of the Assembly we expect that nearly all of the published reports will be taken by the Committee at Stormont. Since its first meeting in May 2007, the Committee has had a heavy programme of work addressing the backlog of reports and current topics. It has already produced several reports, identifying lessons learned and containing recommendations aimed at improving public administration, and will continue to do so, on an on-going basis. It is clear that the increased number of PAC sessions will place significant demands on our VFM capacity during the currency of the plan.

3.8 We respond to enquiries and information from Assembly Members and members of the public on a range of value for money issues. These can lead to significant investigations and, in some cases, to full studies and reports. Increasing media coverage of PAC and NIAO work has resulted in a greater awareness of the Office's role, and has given rise to a related increase in the number of requests from elected representatives and the public. It is anticipated that the increased interface with elected representatives at Stormont will have a significant impact on the Office's programme of work.

3.9 The final report on the Review of Environmental Governance, published in May 2007, recommended that the NIAO's capacity to undertake audits on environmental matters should be increased. Of course, the need to produce additional outputs in this area will have to be balanced carefully with our other audit priorities and, especially, with the demands that additional audits would place on the bodies concerned. This applies particularly to Department of the Environment, Environment and Heritage Service and any new bodies with environmental responsibilities set up as a result of the Review of Public Administration.

3.10 The Office shares information on its forward work programme with other audit agencies in the Public Audit Forum and looks for opportunities to draw on experience in other regions. We liaise with colleagues in other audit offices and will provide information to enable their work and ours to have a broader context. Associated with this we have recently met with Audit Scotland to discuss reviews of major capital projects and share good practice on reporting. We also recently for example, provided information on the organisation of health and social care in Northern Ireland to colleagues in Wales who are looking at this subject there. We also provided advice and support to the Local Government Auditor's new VFM team in the Republic of Ireland. Our recent VFM report on Cancelled Clinics and Missed Appointments (HC 404 19 April 2007) drew on earlier work carried out in Scotland and Wales. Indeed, the Assembly's PAC

asked the Department about the experience of new procedures on booking appointments for patients that had been introduced earlier in Wales.

3.11. We ensure the range of skills necessary for VFM work by:

- ◆ staff training, with particular assistance from the National Audit Office;
- ◆ receiving useful assistance from external reference partners who can provide relevant experience which the Office would otherwise find difficult to match. For example, we are using a retired chief social services inspector to provide advice on a study on Elderly Care.; and we sought legal advice on studies on the Belfast to Bangor Rail line and on a study looking at Job Evaluation in the education sector;
- ◆ using consultants who can provide public sector experience or specialist technical expertise to add breadth and penetration to examinations and help clarify particularly contentious issues. For example, we used a public sector professional to provide support for our recent study on Governance of Arms Length Bodies.

Private Finance Initiative (PFI)/ Public Private Partnership (PPP) Developments

3.12 With the return to devolution in May 2007 the Northern Ireland economy is developing at pace and a significant programme of public infrastructure improvement envisages a role for private finance. The 10-year Investment Strategy for Northern Ireland, published in December 2005, identifies a potential programme of over £16 billion of investment in public infrastructure. It is expected that around one quarter of this programme will be delivered through PFI/PPP. An additional £2 billion will be funded through long-term borrowing. These long term commitments have implications in terms of repayments and impact on the affordability of future Northern Ireland Capital Programmes and Projects.

3.13 Implementation of the Investment programme is at a relatively early stage with some £100 million of PFI spending in 2006-07. However, this will increase significantly over the coming years following a number of significant project/deals such as the £139 million Roads Service DBFO - Package 1 (closed in March 2006), the £122 million waste water project (Project Omega) in March 2007 and an estimated £587 million of projects at preferred bidder stage. These include a £100 million Schools project in Belfast and the second package of roads schemes (estimated value of £245million).

3.14 Over the period of this Plan there will also be a significant public sector investment in "Shared Services" initiatives. Projects such as Workplace 2010; Account (NI); and HR Connect will play a significant role in delivering the Governments' reform agenda for NI government departments. The Office will, over the period of the Plan produce a position report to the NI Assembly on the delivery of these key strategic projects and, in particular, how major risks are being assessed and managed.

3.15 We have recently produced a report on the land transactions that were a significant feature of the earlier education PFI pathfinder projects; assessing the value for money secured on those transactions and identifying lessons for the future management of surplus land and property transactions. This will also be important in the context of the significant public sector land holdings in Northern Ireland and the government's desire for increased asset disposals to help fund the Investment Strategy. A review aimed at assessing the design quality of new and refurbished schools and identifying good practice and areas with scope for improvement is also planned. In addition the Office will be conducting ongoing examinations of individual PFI/PPP projects to ensure that procurement and operational management of those projects continue to deliver value for money.

Support to Departments in Combating Public Sector Fraud

- 3.16 The Office supports public sector bodies in combating fraud and this has been given increased emphasis in recent years. Our support includes:
- ◆ maintaining a small unit to review and monitor the arrangements in departments for the prevention, detection, investigation and reporting of fraud and liaising with relevant groups outside the Office;
 - ◆ ensuring that any exercises undertaken by the Office for audit purposes are also used to assist Departments in identifying possible ineligible claimants and fraudulent payments;
 - ◆ promoting the participation of Northern Ireland departments in the National Fraud Initiative run by the Audit Commission; (See also paragraph 5.12)
 - ◆ training public sector internal audit units in the use of computer interrogation packages;
 - ◆ promoting and participating in seminars and workshops to increase fraud awareness and disseminate good practice; and
 - ◆ liaising with the Fraud Unit and the Financial Investigation Unit of the Police Service of Northern Ireland, internal auditors and departmental finance officers.
- 3.17 Our report programme is designed to encourage departments to focus on the increasing priority which the PAC has recognised needs to be given to tackling public sector fraud in Northern Ireland.
- 3.18 We had recognised the need to strengthen our capacity in fraud investigation. To date, 11 staff have obtained the qualification of the Advanced Professional Certificate in Investigative Practice. In the current planning period, a further two staff will complete this qualification.

- 3.19 Our work in raising awareness across the public sector of best practice in counter-fraud measures extends beyond presentations and networking and includes formal advice and guidance and the review of draft departmental papers on counter-fraud measures, including fraud policies, fraud response plans and memoranda of understanding as well as participating in a department-wide Counter Fraud Forum.

Quality

- 3.20 A key test of a VFM Report is whether it would be capable of underpinning a useful PAC hearing and give rise to measurable impacts. Quality of reports is maintained and improved by a range of means, including:
- ◆ the clearance of draft reports with the audited body to ensure that PAC is presented with an agreed report on which to base its examination;
 - ◆ consultation with interested parties, including the beneficiaries of services. For example, in order to explore the experiences of older people who are in receipt of a Domiciliary Care package, for our report on Older People and domiciliary care we commissioned Ipsos MORI to survey the views of 255 users, selected from across health and social services trusts, about the general quality of service they received. While older people were very appreciative of domiciliary care services in general, there were some areas where satisfaction was not as high as it could be. Some concerns were expressed about the flexibility, reliability and competency of care staff which can impose great strains and anxiety on the person who is reliant on that service;
 - ◆ internal and external quality reviews of work. Internal review procedures are intended to ensure that quality is considered in a co-ordinated way and that action is taken to introduce general improvements when strengths and weaknesses are identified. An external quality assessment of each published

report is undertaken by a panel of independent members, selected for their academic and senior public sector experience. Focus is placed on report presentation, technical content and quality of recommendations. For the reports published in 2006-07 ratings averaged at 3.4 on a scale of 1 to 5. the final rating for individual reports is published on our website (www.niauditoffice.gov.uk)

Efficiency

- 3.21 Most VFM studies are major pieces of research, involving lengthy investigation of departmental records and careful clearance of the facts. They have to provide authoritative information for the Assembly and serve as a basis for a PAC session. We strive to contain the cost of our studies through:

- ◆ the production of tighter, more focused reports, with a strict limit on length; and
- ◆ strengthened project planning and management. In this regard we are planning a major programme of training for VFM in project management during 2007-08.

The specialisation of staff in VFM work and the effective use of consultants have also contributed to our cost control.

Impact of VFM Work

- 3.22 It is important to bear in mind the difficulty of measuring the full impact of VFM work. In addition to the specific improvements which are made following our investigations, audited bodies often make changes during investigations or when they are aware that a study is to be carried out - this has been noted frequently by PAC in its evidence sessions with Accounting Officers. In many cases, recommendations lead to identifiable savings and quality improvements extending over a number of years. The following gives a broad indication of the impact of recent VFM reports:

- ◆ an analysis of the action taken by audited bodies as a follow up to PAC reports issued in 2005-06 and 2006-07 showed that all of the

changes recommended had been accepted and that 40 per cent were already implemented;

- ◆ in 2006-07:
 - audited bodies made 84 significant improvements in response to our recommendations;
 - quantified savings of £46 million were identified using the National Audit Office methods of measurement. These figures are subject to independent audit; and
 - waste totalling £22 million was identified.

PAC's Use of VFM Reports

- 3.23 The impact of our VFM reports is significantly enhanced where these are taken forward in a PAC session, with the Committee adding the weight of its own findings and recommendations. The following examples illustrate the type of impacts that have been achieved, or where scope has been identified for departments to improve their performance, as a result of PAC reports:

- ◆ **Emerging Business Trust (HC 817, 9 February 2006)** - in its report on Governance issues in the Department of Enterprise, Trade and Investment's former Local Enterprise and Development Unit PAC emphasised that departments have a duty to make certain that individuals appointed or re-appointed to boards can demonstrate that they meet the probity principle, that is, they are committed to the principles and values of public service and perform their duties with integrity. The Committee exhorted the Department to take responsibility for ensuring that their own staff, board members of NDPBs and third party organisations understand the high ethical standards to which they are required to operate through guidance, education and training particularly induction training.
- ◆ **Literacy and Numeracy (HC 953, 29 March 2006)** - in its report the Committee drew out the significant differences that exist in the

level of attainment in literacy and numeracy in socially deprived areas in Belfast. The Committee was concerned that children in Protestant working class areas may not be enjoying equal educational opportunities and it called on the Department to set out how it might tackle this issue which the Committee regarded as one of the major challenges Northern Ireland faces. The Committee also drew attention to the absence of benchmarking with other comparable UK cities and recommended that the Department make greater use of its liaison arrangements to see what lessons can be learned.

- ◆ **Museums and Galleries of Northern Ireland (MAGNI) (HC 1130, 8 June 2006)**- the PAC report examined the management of the 1.5 million artefacts (valued at over £100 million) which make up Northern Ireland's National Collection. The Committee's report highlighted weaknesses in the storage, record keeping and custodianship of the collection. The Department of Culture, Arts and Leisure accepted the Committee's views and is addressing with MAGNI the issues through the introduction of a programme to improve storage conditions; a documentation plan which will produce up to date and accessible collections records; and elevating the management of the collection to the highest level in MAGNI's corporate risk register.
- ◆ **Belfast to Bangor Rail Line (HC 343, 20 March 2007)** - the Assembly's first PAC report since its return in May 2007 was on the upgrade to the Belfast to Bangor rail line, which highlighted the loss of some £13 million of public money. The report raised serious questions about Translink's ability to undertake major capital projects and criticised the level of oversight by the Department for Regional Development. It also criticised standards of corporate governance operated by the Northern Ireland Transport Holding Company and Translink's excessive generosity to senior staff. The Committee made detailed recommendations for improvement which have a wider relevance

to all arms length bodies in Northern Ireland.

- ◆ **Outpatients: Missed appointments and Cancelled Clinics (HC 404, 19 April 2007)**
-The Committee found it surprising that about half of all outpatient activity is not recorded in the Department's patient database. Its management information systems only record attendances at consultant led clinics. However, a census carried out by the Department showed that other healthcare professionals run clinics for around 1.7 million outpatients every year. Because of this, data collection does not provide a comprehensive picture of the efficiency and effectiveness of outpatient activity. The report also showed that in a typical year over 300,000 outpatients will not be seen at clinics. Northern Ireland has traditionally had the highest clinic non attendance rate among its health service counterparts in the United Kingdom. This element of unpredictability costs the health service around £12 million a year; makes managing clinics difficult; and can lead to a poor service and longer waiting times.

Other Impacts

- 3.24 Some of the impacts of our work are not necessarily cash savings but are important in supporting government policy and in providing a better service to the public. For example, our report on the management of Substitute Cover for Teachers in 2002 has resulted in a reduction in the level of teacher sick absence which should be less disruptive to pupils. Since our report on Road Safety, there have been less people killed and seriously injured on Northern Ireland's roads. This has contributed not only to a reduction in the obvious direct costs to the health service but also to a reduction in the pain and suffering of victims and families. Also, our report on Take-up of Benefits by Pensioners has led to increasing numbers of pensioners claiming their entitlement of social security benefits.
- 3.25 It is sometimes difficult to measure the full impact of value for money (VFM) work; it can

also take several years before the impact of our recommendations can be accurately assessed and quantified in terms of financial savings. For example a Report published in 2004, **Building for the Future: PFI Pathfinders Schools, (NIA 113/03)** highlighted the importance of assessing long term enrolments (demand) in determining future school provision, whether through conventional procurement or PFI. It recommended that a more strategic review of long term enrolments should be used to inform decision making.

- 3.26 This approach was endorsed by consultants engaged by the Department for Education and the Strategic Investment Board (NI) to examine new procurement and delivery arrangements of the school estate. The consultants estimated that the minimum financial savings flowing from estate rationalisation were around 5 per cent per annum in planned capital expenditure. The Bain Review, published in December 2006, also examined the strategic planning and organisation of the schools' estate, both in terms of curriculum and demographic changes. It recommended that the schools' estate should be planned on a local area basis. It further recommended that previously announced capital projects currently underway should be reviewed according to their stage of development for their consistency with the area-based approach. A subsequent review by department identified eight projects, estimated value £23 million, where there are some major issues relating mainly to future enrolments or the provision in the area and which would not justify the capital investment at this time. A further six projects valued at £58 million are temporarily on hold because of current uncertainties relating to them.

Chapter 4: Local Government Audit

Introduction

- 4.1 The Department of the Environment for Northern Ireland (DOE), with the consent of the Comptroller and Auditor General, designates staff of the Office as Local Government Auditors, who are responsible for the audit of the 26 District Councils, Arc 21 Joint Committee, the Local Government Staff Commission and the Northern Ireland Local Government Officers' Superannuation Committee. In addition the Division undertakes the audits of the Northern Ireland Housing Executive and the Northern Ireland Fire and Rescue Service for sign-off by the C&AG.
- 4.2 A Division of the Office, headed by the Chief Local Government Auditor, is responsible for the audit of local government bodies. Audit fees, which are based on full cost recovery, are recouped from local government bodies.

Objectives and Targets

- 4.3 In the period since 1 April 2003, when the Audit and Accountability (Northern Ireland) Order 2003 took effect, a key challenge has been to integrate local government audit staff within the overall structure of the Office, while fully maintaining the quality of its audits and its service to the DOE and local authorities. This has been achieved and the audit approach, including the introduction of the Office's financial audit methodology (Audit 21) and software (Team 21), has been further embedded and consolidated in the day-to-day working practices of the Division. Integration has been enhanced by the movement of staff between divisions and the Office will seek to further develop this over the planning period.

In May 2007 Local Government Audit staff moved from City Hall into the refurbished NIAO offices in University Street further assisting working relationships.

- 4.4 The following targets have been set for the work of the Division:

- ◆ to audit all local authority accounts which are prepared to the required standard and submitted on time, by the end of October or within three months of the receipt of the final accounts from the authority;
- ◆ to provide, on behalf of ratepayers and other interested parties, an audit service which assists in achieving, within councils, and other audited bodies, the highest standards of financial stewardship and value for money; and
- ◆ to achieve efficiency savings of more than three per cent on those audits where like-for-like comparisons can be made year-on-year.

- 4.5 One of the aims of the Audit and Accountability (Northern Ireland) Order 2003 was to consolidate the standards of public sector audit in Northern Ireland. Local Government audits are therefore subject to the same quality control procedures as the wider Office.

Statutory Audit

- 4.6 In 2007-08 it is estimated that the Division will audit expenditure and revenue transactions and assets and liabilities totalling £1,770 million and £8,260 million respectively.

Impact of Statutory Audit Work

- 4.7 The main benefits flowing from Local Government Auditors' statutory audit work are the independent assurances that local government bodies' resources are being used in the way intended and that reliance can be placed on financial statements. The 'deterrent effect' of audit cannot be measured precisely but it should not be underestimated. The knowledge that accounts will be subject to rigorous and probing audit is a positive influence on the day-to-day decisions of council officers and members to observe the principles of good financial stewardship, governance and regularity.

4.8 During the course of an audit, Local Government Auditors look for opportunities for improvement in accounting, internal control and risk management and, whenever possible, potential for improving value for money. An example of impact during 2006-07 as a result of recommendations arising from our financial audit work was where a local government body gave significant grant aid to a number of organisations but did not carry out independent checks to ensure agreed outputs had been delivered. This led to departments being advised that outputs must be agreed and checked to ensure that the funding provided by the body is being used to assist the delivery of the body's new corporate plan.

4.9 On completion of the audit of the accounts the Local Government Auditor reports to the local government body. The local government body is required to publish the statement of accounts as soon as reasonably possible after conclusion of the audit and in any event before the 31 October immediately following the end of the financial year. The Local Government Auditor's report on the accounts must be published with the accounts or if not available for 31 October the local government body must publish and make a declaration and explanation of the fact that at the date of publication the Local Government Auditor has given no opinion.

This report follows the local government auditor appointing a date on or after which an interested person may exercise their rights under Article 17(2) and 18(1) of the Local Government (Northern Ireland) Order 2005. These provisions allow interested persons to question the auditor about the accounts or to attend before the auditor and make an objection in relation to the accounts. The auditor's report is not completed until any investigation as to whether his statutory powers, with regard to unlawful expenditure or losses caused by wilful misconduct, should be exercised.

Developments impacting on Local Government Audit

Revised Local Government Audit Legislation

4.10 The Local Government (Northern Ireland) Order 2005 came into effect in April 2006 and represents the biggest change in over 30 years to the audit of local government bodies. The legislation enables Northern Ireland to catch up with local government audit developments in England and Wales. These changes include:

- ◆ providing Local Government Auditors with an additional power to issue public interest reports to local government bodies, in addition to the auditor's annual reporting arrangements. Public interest reports can be issued on any matter, either following completion of the audit, or immediately in the course of an audit, if the auditor believes that the matter requires urgent consideration;
- ◆ extending the access rights of Local Government Auditors to documents relating to local government bodies, but held by third parties. This brings local government audit access rights into line with those in central government; and
- ◆ the formal designation by the DOE, with the consent of the C&AG, of a member of NIAO staff as Chief Local Government Auditor. The legislation requires the Chief Local Government Auditor to:
 - » prepare an annual report detailing the work of Local Government Auditors;
 - » prepare and maintain a Code of Audit Practice which is approved by the Northern Ireland Assembly - the Code to set out the best professional practices to be adopted by Local Government Auditors;
 - » draw up arrangements for certifying claims of central government grants by local government bodies; and

- ◆ initiate, independently from the DOE, value for money studies on the provision of services by local government bodies. Under the previous legislation, such studies could only be undertaken if required by the DOE.

- 4.11 The first annual report by the Chief Local Government Auditor under this legislation was published in June 2007, and in August the Department of Finance and Personnel issued DAO(DFP) 09/07 advising grant paying bodies of the new arrangements in relation to the certification of grants.
- 4.12 The Code of Audit Practice, introduced after consultation with audited bodies and other interested parties, was laid at the Northern Ireland Assembly in March 2006 and copies made available to all council members in the 26 district councils. The Code of Audit Practice is also available on the Office's website.
- 4.13 The new legislation is not expected to have a significant impact on the audit of local government bodies' statements of accounts. Audit practices, specific to local government, already largely reflect those employed by the Audit Commission. The impact of the Chief Local Government Auditor's powers to initiate value for money studies is expected to be very significant after the Review of Public Administration.

Complexity of Accounts

- 4.14 The accounts of District Councils are prepared in line with an Accounts Direction issued by the DOE, which requires compliance with the annually updated Code of Practice on Local Authority Accounting in the United Kingdom. The Code is recognised by the Accounting Standards Board as a Statement of Recommended Practice (SORP).
- 4.15 The introduction of SORP changes in recent years has resulted in local government accounts becoming more complex, increasing the degree of judgement

which, in turn, has made the audits more technically challenging.

- 4.16 In support of the Local Government Order (Northern Ireland) 2005 the DOE has issued the Accounts and Audit Regulations (Northern Ireland) 2006 which provide councils with a more detailed accounting and reporting framework. The Regulations came into effect in April 2006 and apply to the audit of the accounts of local government bodies for the financial year 2006-07 and thereafter. The DOE also issued the Local Government (Accounts and Audit) (Amendment) Regulations (Northern Ireland) 2006 effective from 1 April 2007. These Regulations require a local government body to include in its accounts a statement on internal control and to maintain an adequate and effective system of internal control.

The Audit of Grant Claims

- 4.17 The Local Government Auditor, when requested, certifies grant claims and returns for district councils. This is an area of important work that has been increasing over recent years.

District Policing Partnerships

- 4.18 Under the Police (Northern Ireland) Act 2000, District Policing Partnerships have been established in each district council area. The set-up arrangements provide for the expenditure of these Partnerships to be audited by Local Government Auditors. The first audits took place in 2004-05. This work will continue over the planning period and will cover each of the 26 District Policing Partnerships each year.

VFM Work

- 4.19 Where required by the DOE or the Chief Local Government Auditor, Local Government Auditors can also undertake comparative and other studies. These studies are designed to make recommendations to improve economy, efficiency

and effectiveness in the provision of council services.

4.20 The Chief Local Government Auditor has completed annual reviews of absenteeism in local authorities, commenting on relative performance and drawing out best practice. In his report in March 2007 he indicated that the cost of absenteeism in the 26 district councils was £14.0 million. He further estimated that had Northern Ireland rates been similar to those in England and Wales the cost of absenteeism would have been £11.7 million, a saving of £2.3 million. Absenteeism is a problem area in a number of councils with rates in five councils more than double that found in the best performing council. The Chief Local Government Auditor will continue to monitor and report.

4.21 Areas for wider study will be identified through the auditors' detailed review of management arrangements in councils.

Whole of Government Accounts

4.22 District councils are captured in the arrangements for Whole of Government Accounts and Local Government Auditors will, where required, audit the financial information.

Review of Public Administration

4.23 Following the Review of Public Administration direct rule Ministers announced a reduction in the number of district councils from 26 to 7 with effect from April 2009 and the transfer of functions to councils. The Northern Ireland Executive, under the devolved administration, has commenced a review of these decisions. In view of the uncertainty this Plan does not attempt to anticipate the outcome of the Review. However, the Office is undertaking some preliminary planning on possible post review requirements.

Chapter 5: Corporate Services

Corporate Services

5.1 The Office's Corporate Services Division consists of the Finance and Human Resources functions and provides a range of support services functions and systems for the Office as a whole.

5.2 The main tasks of the Division are to:

- ◆ carry out the Comptroller function by issuing funds from the Consolidated Fund;
- ◆ compile the Office's Corporate Plan and Estimates to provide the Office with the resources (human, cash and facilities) necessary to undertake approved work;
- ◆ provide a human resources function, including staff development and training;
- ◆ compile the Office's Resource Account;
- ◆ monitor financial performance through the Office's Management Information System;
- ◆ develop policies to improve the efficiency, effectiveness, quality and impact of public sector audit; and
- ◆ provide cost-effective support services to management and staff.

The Division is subject to the same rigorous pressure as the audit functions to be as cost efficient as possible. It is planned that efficiencies will be delivered through the setting of tight targets, close scrutiny and control of work, improvement of current systems and outsourcing when better value for money can be achieved.

Information Technology

5.3 Information and communications technology (ICT) is an important corporate resource and crucial to conducting the Office's business. A major upgrade of the NIAO ICT infrastructure has recently been undertaken. Over the Plan period, the Office will continue to develop ICT to support its business requirements and further improve operational efficiency and effectiveness.

5.4 A major IT project, an Electronic Document and Records Management System is under consideration and may need to be implemented in the planning period.

Training

5.5 The Office has 75 qualified accountants, of which 3 are on secondment to public sector bodies and 5 are on career breaks. It aims to maintain a high proportion of qualified accountants, mainly through the professional accountancy training scheme and by the recruitment of qualified staff.

5.6 The effectiveness of the Office is almost entirely determined by the quality of its skills base. Training is therefore extremely important. Currently, 26 staff are undertaking studies for a professional accountancy qualification. Training for professional accountancy and technical qualifications is complemented by Office-based training in specific audit techniques, management, IT and personal development.

5.7 The training budget, which has been increased annually over a number of years, reflects the substantial training commitment for the trainee accountant recruitment exercise launched in 2004-05 and which has progressed to a fourth intake in the 2007-08 year. In addition to tuition for professional studies by external suppliers, training is provided to the new employees by staff within the Office. The trainee accountant recruitment scheme has had a significant impact on resources in light of the associated professional study and other training costs and the Office will continue with the scheme.

5.8 In 2006-07 the Office held or participated in 93 structured training events, in addition to a series of short seminar-type presentations on topical and relevant issues. Personal Development Plans were agreed for individual staff and these are subject to active review and revision. The Office will continue to make available the additional training needed to ensure requirements are met.

Support to Whistleblowers

- 5.9 Whistleblowing continues to provide NIAO with ongoing activity on three fronts:
- ◆ disclosures from employees;
 - ◆ disclosures from elected representatives; and
 - ◆ disclosures from members of the public.
- 5.10 While the Office encourages public sector workers to raise issues of concern through their own internal whistleblowing procedures, from time to time the Office receives disclosures which have not gone through the internal process. This is in keeping with the C&AG's role as a prescribed person, under the Public Interest Disclosure (Northern Ireland) Order 1998, to whom protected disclosures can be made. NIAO uses its website to encourage public servants and members of the public to raise their concerns. Disclosures are often demanding and time consuming and may involve face to face meetings to determine the full extent of the concerns. The C&AG personally reviews all disclosures to ensure that there is particularly careful assessment and if necessary, follow-up.
- 5.11 NIAO is playing a proactive role in raising awareness. It hosts and participates in seminars across the public sector, networks with departments and promotes best practice. We have co-operated with the charity "Public Concern at Work" to highlight current best practice in the field of whistleblowing and governance. This reflects the importance that the Audit Office attaches to encouraging whistleblowing as an element of good governance in deterring and detecting malpractice.

Data Matching and National Fraud Initiative

- 5.12 In supporting public bodies combat fraud, the Office has been very much aware of the value of data matching in identifying and deterring fraud and accordingly has promoted the participation of NI Departments in the National Fraud Initiative (NFI) run by the Audit Commission.

- 5.13 The Serious Crime Bill, currently passing through Parliament, will enable the Office to carry out its own NFI. The Bill includes provisions that amend existing legislation to give the Audit Commission, the Comptroller and Auditor General for Northern Ireland and the Auditor General for Wales specific statutory powers to conduct data matching exercises for the purpose of assisting with the prevention and detection fraud.
- 5.14 Should the Bill achieve Royal Assent this autumn, related funding requirements will be addressed at the 2008-09 Estimate stage.

Freedom of Information

- 5.15 The Freedom of Information Act 2000 requires public authorities to adopt and maintain publication schemes that set out the information they publish or intend to publish. The Office has a Publication Scheme which has been approved by the Information Commissioner and is available on our website. The Act also provides a general right of access to information held by public authorities, subject to certain exemptions. Since this part of the legislation came into force on 1 January 2005, the Office has received 27 requests for information.

Staffing

- 5.16 There are currently (September 2007) 133.6 whole time equivalents in post. Peaks in workload require qualified staff to be seconded in on a short term basis.
- 5.17 Twenty six staff currently work reduced hours and, as a modern employer, NIAO is content to facilitate requests for such working where practicable. Also we have 8 staff on career breaks and 4 staff are seconded to departments to fulfil specialist roles.
- 5.18 During 06-07 we lost 8 staff (6% of our total Whole Time Equivalents) through resignations and retirement.

Equality

- 5.19 It is the policy of the Office that all eligible persons should have equal opportunity for employment and advancement on the basis of their ability, qualifications and aptitude for the work. Procedures and practices are in place to prevent discrimination and to monitor the overall position.
- 5.20 Policy statements on equality issues have been agreed with the Trade Union Side and the Office, as a specified “public authority”, submits annual monitoring returns to the Equality Commission for Northern Ireland. Under the Fair Employment and Treatment (NI) Order 1998, the Office is also required to review the composition of its workforce and employment practices every three years. A review covering the period 2004 to 2007 is currently being undertaken.
- 5.21 The composition of the workforce of the Office over the period 2002-2007 is shown in Figures 5.1 and 5.2.

Figure 5.1: Composition by Community Background

	P %	RC %	ND %
2002	56	40	4
2004	57	40	3
2006	57	40	3
2007	56	41	3

P = Protestant
R = Roman Catholic
ND = Non-Determined/Other

Figure 5.2: Composition by Gender

	Male %	Female %
2002	58	42
2004	60	40
2006	54	46
2007	53	47

Equality - Legislative requirements

- 5.22 NIAO remain fully committed to the fulfilment of its Section 75 obligations. Section 75 of the Northern Ireland Act 1998 requires the Office, in carrying out its functions, to promote equality of opportunity and good relations among a range of groups. Our Equality Scheme, approved by the Equality Commission for Northern Ireland in November 2003, sets out how the Office intends to fulfil these requirements.
- 5.23 The Equality Scheme contains an action plan and target dates for the implementation of the various commitments. The Office has taken a number of these forward, including:
- ◆ the review of all our policies to determine whether there are any equality of opportunity implications; and
 - ◆ delivery of equality awareness training to all staff.
- 5.24 An Annual Review of Progress is submitted to the Equality Commission and an overall review of the Scheme will be undertaken within five years of the approval date (November 2003).

Equality - Disability Discrimination

- 5.25 Section 49A of the Disability Discrimination Act 1995 (as amended by Article 5 of the Disability Discrimination (Northern Ireland) Order 2006) requires the Office, in carrying out its functions, to have due regard to:

- ◆ promote positive attitudes towards disabled people; and
- ◆ encourage participation by disabled people in public life.

5.26 Our Disability Action Plan sets out how the Office intends to fulfil these duties in relation to its functions for the 5 year period commencing 1st July 2007. It contains an action plan and target dates for the implementation of various commitments which are subject to annual review.

Chapter 6: Resource Requirement

Future Resource Requirement

- 6.1 The restoration of the Assembly has meant that there will be an increase in work particularly for the Division producing Value for Money reports for PAC. In addition 2008-09 will see the impact of some of the Review of Public Administration changes in the Health sector. Looking beyond the first year of the plan it is impossible to predict at this stage how further changes in RPA will impact on us or whether the functions of Law and Order will be transferred within this plan period.
- 6.2 The Office continues to vigorously pursue efficiency in its financial and value for money work and this will be further targeted during the period of the Plan. The efficiencies gained will make an important contribution to our ability to meet growing demands identified in the earlier chapters of this plan:
- ◆ Meeting the need for scrutiny of the changing face of public sector administration;
 - ◆ Supporting the strengthening of good governance in public services;
 - ◆ Addressing the changes in auditing and accounting standards and public sector developments;
 - ◆ Addressing the impact of new legislation affecting local government accounting and auditing;
 - ◆ Expanding work on performance measurement and validation;
 - ◆ Helping to deliver the Government's commitment to faster closing of accounts and supporting the move to Whole of Government Accounts;
 - ◆ Meeting the need for increased audit coverage of IT systems;
 - ◆ Enhancing action by public bodies to combat fraud; and
 - ◆ Supporting the development of the Accounting Services Programme across Northern Ireland.

- 6.3 Figure 6.1 summarises the Office's estimated resource requirements for the period 2008-09 to 2010-11. Taking account of planned efficiencies as a result of RPA, the Office aims to deliver its expanding programme of work with an increase in net resources of 2.9 per cent in 2008-09. This increase of 2.9 per cent has also been rolled forward until 2010-11, as outlined in paragraph 6.1, because of the uncertainties surrounding future RPA changes and the transfer of Law and Order functions to Northern Ireland. Further detail is contained in Appendix 1.

Figure 6.1:
Net Resource Requirement

	2006-07 Outturn £'000	2007-08 Estimate £'000	2008-09 Forecast £'000	2009-10 Forecast £'000	2010-11 Forecast £'000
Gross Resource Requirement	10,084	10,806	11,195	11,490	11,793
Income	(1,843)	(1,917)	(2,050)	(2,080)	(2,110)
Net Resource Requirement	8,241	8,889	9,145	9,410	9,683

Figure 6.2 shows the main areas of expenditure.

Figure 6.2:
Analysis of Resources by Type of Expenditure

	2006-07 Outturn £m	2007-08 Estimate £m	2008-09 Forecast £m	2009-10 Forecast £m	2010-11 Forecast £m
Staff	7.1	7.6	8.0	8.3	8.6
Consultancy	1.2	1.5	1.4	1.5	1.5
Infrastructure	1.8	1.7	1.8	1.7	1.7
Total	10.1	10.8	11.2	11.5	11.8

- 6.4 The Office requires a highly skilled and motivated workforce to deliver the highest level of service and be in a position to meet the challenges we face over the planning period. We need to have a mix of staff with a range of relevant qualifications and experience to meet operational demands. To meet our business needs, the Office must be able to recruit and retain staff with ability and skill and reward them appropriately.
- 6.5 Over the Plan period, the Office will update and replace hardware and software and further develop its information and communications technology infrastructure to enhance operational efficiency and effectiveness.
- 6.6 In summary, we forecast that the Capital Expenditure will be as laid out in Figure 6.3.

Figure 6.3:
Capital Expenditure

Year	Forecast £'000
2008-09	300
2009-10	200
2010-11	270

Income

- 6.7 The majority of our audit work is for Crown Bodies for which fees cannot be charged. However, fees are charged for work undertaken on an agency basis for the NAO and on certain other audits, including the six North/South implementation bodies. Additionally, the Office receives income from the audit of District Councils.
- 6.8 It is estimated that fees for audit services will total £2.05 million in 2008-09 (see Figure 6.4). Increases for years 2 and 3 of the Plan are projected at 1.5 per cent and 1.4 per cent respectively. This is very difficult to project in light of structural changes in the Review of Public Administration and at this

stage we cannot predict accurately the impact of this. Figure 6.4 will, of course, be refined at our Estimates stage next year.

Figure 6.4:
Sources of Income 2007-08

Audit Area	2007-08 Forecast £'000
NDPBs etc.	300
NAO Accounts	820
Local Government	930
	2,050

Appendices

Appendix 1: Departmental Expenditure Limit, 2006-07 to 2010-11 (current prices) (paragraph 6.3)

	Estimate		Planned		
	2006-07 £000	2007-08 £000	2008-09 £000	2009-10 £000	2010-11 £000
Human Resources	8,171	9,087	9,416	9,743	10,066
Other running costs	1,292	1,167	1,199	1,147	1,107
Gross Resource	9,463	10,254	10,615	10,890	11,173
Income	(1,843)	(1,917)	(2,050)	(2,080)	(2,110)
Net Resource	7,620	8,337	8,565	8,810	9,063
Non-cash	621	552	580	600	620
Net Resource Requirement	8,241	8,889	9,145	9,410	9,683
Adjustments to NRR to get to NCR					
Non Cash	(621)	(552)	(580)	(600)	(620)
Changes in working capital other than cash	69	0	0	0	0
Use of provision	112	66	0	0	0
Capital	659	385	270	200	270
Net Cash Required	8,460	8,788	8,835	9,010	9,333
% increase on previous year (Net Resource Requirement)		7.9%	2.9%	2.9%	2.9%
GDP deflator (base year = 100)	100.000	102.750	105.580	108.480	111.466
Net Resource Requirement (real)	8,241	8,651	8,662	8,674	8,687
% real increase		5.0%	0.1%	0.1%	0.1%
Index of NRR (real)	100	105.0	105.1	105.2	105.3

Appendix 2: Reports Published in 2006-07

Title	NIA/HC Number
Private Practice in the Health Service	HC 1088
Collections Management in the National Museums and Galleries of Northern Ireland	HC 1130
Departmental Responses to Recommendations In NIAO Reports	HC 1149
Collections Management in the Arts Council of Northern Ireland	HC 1541
Sea Fisheries: Vessel Modernisation and Decommissioning Schemes	HC 1636
Springvale Educational Village Project	HC 40
Reinvestment and Reform: Improving Northern Ireland's Public Infrastructure	HC 79
The Fire and Rescue Service Training Centre	HC 80
Internal Fraud in Ordnance Survey of Northern Ireland	HC 187
The Upgrade of the Belfast to Bangor Railway Line	HC 343
Outpatients: Missed Appointments and Cancelled Clinics	HC 404

In addition, the office has produced the annual general report on the financial audit of accounts - namely "Financial Auditing and Reporting: 2004-05" HC 119.

Appendix 3: Trends in Number of Accounts Audited by NIAO

	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Statutory Audits										
Resource Accounts	-	17	17	17	17	17	17	17	17	17
Appropriation Accounts	26	-	-	-	-	-	-	-	-	-
Revenue Accounts	1	1	1	1	1	1	1	1	1	1
Trading Accounts	-	-	-	-	-	-	-	-	-	-
Executive Agencies	22	22	19	19	19	19	17	14	11	9
Health Service Accounts	-	-	-	71	71	72	72	33 ⁽¹⁾	23 ⁽¹⁾	23 ⁽¹⁾
Other Statutory Certification	44	45	45	49	50	51	53	54	54	47
Other Statutory Examination	6	6	6	-	-	-	-	-	-	-
Central Government Accounts	-	-	1	1	1	-	-	-	-	-
Whole of Government Accounts	-	-	-	-	-	-	1	1	1	1
Agreement Audits⁽²⁾										
Executive Agencies - Dry Run	-	-	-	-	-	-	-	-	-	-
Resource Accounts - Dry Run	17	-	-	-	-	-	-	-	-	-
Whole of Government Accounts - Dry Run	-	-	-	-	-	1	1	1	-	-
Other	20	21	21	21	16	15	15	15	15	11
Audits carried out on behalf of the National Audit Office	25	25	25	31	31	33	35	33	33	33
Central Government TOTAL	161	137	135	210	206	209	211	168	155	142
Local Government	-	-	-	28	29	29	29	29	36⁽¹⁾	10⁽¹⁾
TOTAL	161	137	135	238	235	238	240	197	191	152

Notes:

The number of accounts shown relates to those to be audited during the financial year indicated. The figures in this table do not take into account increased workload arising from an extension of the C&AG's powers to audit public sector companies, or the effect of devolution of security should this occur during the Corporate Plan period.

- (1) Figures are provisional pending decisions on the Review of Public Administration in the Health and Local Government Sectors.
- (2) Accounts subject to audit by agreement between the Office, the Department of Finance and Personnel and the body concerned.