



Northern Ireland  
Assembly

---

**COMMITTEE FOR  
FINANCE AND PERSONNEL**

---

**OFFICIAL REPORT  
(Hansard)**

---

**Budget Scrutiny Inquiry: Stage 2**

9 June 2010

**NORTHERN IRELAND ASSEMBLY**

---

**COMMITTEE FOR  
FINANCE AND PERSONNEL**

---

**Budget Scrutiny Inquiry: Stage 2**

---

9 June 2010

**Members present for all or part of the proceedings:**

Ms Jennifer McCann (Chairperson)  
Mr David McNarry (Deputy Chairperson)  
Dr Stephen Farry  
Mr Simon Hamilton  
Mr Fra McCann  
Mr Mitchel McLaughlin  
Mr Declan O'Loan  
Ms Dawn Purvis

**Witnesses:**

Mr Kieran Donnelly ) Comptroller and Auditor General  
  
Mr Eddie Bradley ) Northern Ireland Audit Office  
Ms Louise Mason )

**The Chairperson (Ms J McCann):**

I welcome Kieran Donnelly, Louise Mason and Eddie Bradley. You are very welcome. Please make some opening remarks, following which members will ask questions.

**Mr Kieran Donnelly (Comptroller and Auditor General):**

I am very pleased to have the opportunity to address the Committee on this issue. The general theme is the potential for my office to provide a wider support service to the Assembly, over and beyond the service that we provide to the Public Accounts Committee already.

The briefing paper outlines the role of other audit offices in providing support to Committees. The National Audit Office has been producing what is effectively a product line for the Select Committees of the House of Commons. It provides what are known as performance briefings, and it has been doing that work since about 2006. We did not hold on to its coat-tails at that time because it was around the time of the restoration of devolution. The priority for my office at that time was to get up to speed with the needs and demands of the Public Accounts Committee. However, we are now over that hurdle, and it is an opportune time to look at what wider support we could provide to the Assembly's Committees.

As members will see from the paper, there are three options. Those options are not mutually exclusive. The first is whether the Audit Office could produce performance briefings that are similar to those produced by the National Audit Office (NAO). I think that we could do so with relative ease. That said, we would not be in a position to do such briefings for each Department on an annual basis. We would have to start off on a pilot basis and work up, perhaps over three or four years, or use a cyclical approach in which we would get round all the Departments over a certain period.

The second option would be to do some financial management reviews. Colleagues in Audit Scotland and the National Audit Office are already down that road. Products of that type could be considered by either the Public Accounts Committee (PAC) or other Assembly Committees. It is worth mentioning that one of the products that we produced last year was a general overview report on Health Service finances. That was referred by the PAC to the Committee for Health, Social Services and Public Safety. The feedback from the Health Committee suggested that that worked quite well. Some of the material in that health report is quite close to the type of product that the NAO has produced for the Select Committees at Westminster, so there is potential to develop that strand of work.

The third option is secondments. I employ quite a number of qualified accountants in my office, so there are opportunities to second staff to the Assembly, perhaps to particular Committees or a general research team. That is all that I want to say at this stage.

**Dr Farry:**

I welcome Kieran, Eddie and Louise, whom I see in another part of the Building on a quarterly basis at least.

How does the Audit Office see its work in respect of the balance between the traditional role of an audit office, which is viewed as being reactive, and what we are talking about, which is much more proactive in relation to early intervention? Is there a balance to be struck between being proactive and reactive? It is now practice for a representative of the Audit Office to regularly attend audit committee meetings in organisations that your office audits, which, presumably, includes government Departments. Is there a tie in between such work and our Committees' performance management role? How can we make use of your office's existing commitment to work with Departments?

**Mr Donnelly:**

The first point is that there is a big element of statutory work, which is work that I have to do. The main component of that statutory work is the financial audit of virtually all public sector accounts in Northern Ireland. That is work that has to be done, and it comes first, before we do any discretionary work.

As Dr Farry said, in recent years, we have moved into quite a lot of proactive work with audit committees. I regard the Public Accounts Committee as the mother of audit committees, but, below that, every public sector entity in Northern Ireland has its own audit committee. We attend meetings of those audit committees up to four times a year. We produce a report to those charged with governance, and that happens below the Assembly's radar. In the case of a major Department or non-departmental public body (NDPB), such a report may run to 30 or 40 pages.

A lot goes on below the Assembly's radar. However, important issues should bubble up into the public domain. If issues are sufficiently important, I report on them. I would include Health Service issues in my general report on the Health Service or central government issues in my general report on central government accounts. In the next few weeks, I have general reports coming out on both those sectors, which include issues that I have deemed to be sufficiently important to be brought into the public domain.

Dr Farry raised the interesting issue of the relationship between governance at the Assembly level and the lower level. What happens at the lower level is important, for example, in making sure that audit recommendations of all types are implemented, whether they come from the Public Accounts Committee, the Audit Office or internal audit. A key duty of audit committees at that

lower level is to track all such recommendations, including those from the PAC. Therefore, those committees are very important in the chain of public accountability. Our proactive work in that area includes responding to the fact that there has been a movement to bring in a lot more non-executives from outside the public service to serve on those audit committees, which has been a very good move because it has led to more of a challenge function in the Civil Service. We have been heavily involved in providing training to those non-executives —

**Dr Farry:**

Are they what are called the independent members?

**Mr Donnelly:**

They are independent people. The Civil Service has really opened up to non-executives over the past five or six years, which has been a very good cultural change. Louise, who has been to most of the audit committees and has seen that change and growth in the challenge function on the ground, may want to speak about that.

**Ms Louise Mason (Northern Ireland Audit Office):**

I have seen significant change across a number of bodies over recent years, and others are in the process of changing. Proper governance and the role of an audit committee have developed over the past number of years and continue to do so. The public sector has benefited and will continue to benefit from the fact that good, non-executive, independent people are asking challenging questions of Departments and NDPBs or arm's-length bodies.

**Dr Farry:**

Is there an opportunity to share with Committees the reports that are produced for Departments? Could those reports be routinely shared to develop the wider scrutiny role that we are trying to encourage?

**Mr Donnelly:**

There is an element of confidentiality with the client — what we report will be between us and them — which makes that difficult. However, that understanding is qualified by whether I think that something is in the public interest.

**Dr Farry:**

Would you highlight that fact well in advance of conducting your formal audit?

**Mr Donnelly:**

Yes.

**Dr Farry:**

I want to ask about the possible secondment of a member of staff from the Audit Office to a new unit that may be created in the Assembly. Do you see any limitations to that role? Would that person essentially be a member of audit staff working within the parameters of the Audit Office or would they apply their auditing skills more widely? I refer particularly to issues that may involve delving into policy advice, such as competing priorities and what is or is not front line. Would boundaries be applied to where Audit Office staff members could go?

**Mr Donnelly:**

The way I see it is that the main benefit would be to bring some sort of skills transfer. Government accounts and budgets are very complicated. There is a lot of technical jargon, and there is a key role in demystifying what actually happens. A secondment would provide a professional, independent perspective. I do not think that there is any potential for conflict. We have clear ground rules on how we handle secondments to the wider public service and even to private accountancy firms. Therefore, any potential for conflicts of interest can be well managed.

**Dr Farry:**

Would the Audit Office view a secondment to the Assembly as a major opportunity for someone's career development, as opposed to that person coming to a backwater? Would such a secondment be seen as advantageous for an employee's personal development?

**Mr Donnelly:**

It would be seen as a key development opportunity and is something that we would actively promote. Audit can be quite a narrow field, and it is important that I get my staff into other disciplines.

**Mr O'Loan:**

My question follows on from the discussion that Stephen's first question opened up. It is about

the Audit Office's role in the area of financial management, which I am not entirely clear about. I understand that, in any section of the public sector, financial management is critically important in achieving the best use of resources and having excellent systems in place to use finances so that that happens. I am less clear about the role of an audit system in relation to that. Traditionally, I tend to think of audit systems being more involved in issues of propriety and governance than financial management and the best use of resources. I may be wrong, but I want to explore the issue and to hear your views about the lines of demarcation — if that is the proper way of putting it — in the role of audit.

I do not study PAC reports in the detail that I probably should, but, occasionally when I have looked at them, I have thought that they were potentially trespassing into areas that were really for the relevant Statutory Committee. In the same way, I wonder about the role of an audit committee. As I have those questions in relation to your retrospective function, I have them all the more so in relation to your potential role in the proactive work on the forward creation of a budget.

**Mr Donnelly:**

You mentioned governance, propriety and financial management. I see our role as covering all three of those in both the work that we do for the Assembly and the work that we do at the lower level. Financial management issues will loom very large in the reports that we issue to auditees, and various facets of financial management, such as budgetary control, investment appraisal and project management, will feature prominently in our work. The question alluded to in the paper is whether we can pull some of that together at a more strategic level and do a more strategic financial management review of an entire Department and its satellite bodies. There would probably be merit in doing that.

You also mentioned the retrospective nature of audit. Audit is retrospective. It looks backwards to expenditure rather than forwards to budgets. There is a statutory restriction on my questioning the merits of policy objectives. That is a very carefully constructed statement, and sometimes it is misinterpreted. It does not mean that there are not aspects of policy that I cannot look at. I cannot look at the merits of policy objectives. What does that mean in practice? It means, for example, that I do not have any ideological view on whether public-private partnerships are a good thing or a bad thing. However, I am perfectly entitled to look at particular cases to see how they have outworked in practice. As regards budgets, I am not entitled to make

judgements on the merits of particular budget allocations, but I am entitled to look at the processes by which budgetary decisions were made. If a policy decision was based on limited quality research or a poor evidence base, I am perfectly entitled to look at that. I hope that that clarifies my role in policy.

**Mr O'Loan:**

That provides clarification and further food for thought.

**Mr Hamilton:**

That is actually the point that I was going to make. The paper seems to suggest that to follow the traditional route of auditing — as NIAO reports have done — is retrospective and looks back at past finance. While that is useful, the Committee has identified problems, not in looking at the policy decision behind why an allocation has been given to one Department over another but in testing that. What can the Audit Office do to help the Committee for Finance and Personnel and, indeed, other Statutory Committees to scrutinise the thought process behind the policy? I do not mean scrutiny of the policy itself, because that is an entirely separate decision. We cannot have the Audit Office or anyone from outside saying that a policy is good or bad because that is a political decision.

How do you see your role in the process behind making an allocation and deciding whether it represents value for money when compared with previous experience in that Department or elsewhere? Clearly, there is potential tension there. Do you envisage a role for the Audit Office in helping Statutory Committees in a practical way with current, live information about budgets when those Committees are involved in a budget process and that information is presented to them?

**Mr Donnelly:**

It is fair to say that we are not close to that end of the process because we are retrospective. We audit accounts rather than budgets. That said, if we were to conduct a financial management review of any large entity, it would be fair for us to look in detail at its budget planning process and at how its systems and processes were working. We touch on those issues in a good practice guide on efficiency, which Eddie has been involved in developing.

**Mr Eddie Bradley (Northern Ireland Audit Office):**

The NAO has done some work on financial management reviews. The questions that it asks in those reviews are current and relevant. It looks at whether there is clear understanding of the links between resources that have been applied and performance out-turns. It would be quite legitimate for us to ask that sort of question, which is not entirely retrospective. It makes a connection between the money that is spent and the outcomes that are delivered, and it looks at systems for measuring that.

Along with our colleagues in Audit Scotland and the Wales Audit Office, we put together a good practice efficiency checklist. It aims to promote improvement and to facilitate detailed review and reflection by audited bodies on how they allocate resources. The checklist is intended as an aide-memoire for senior managers and board members. It is structured around three key elements. First, it asks whether budgeting and spending are priority-based. That involves consideration of whether there is clarity about what the priorities are, how those priorities link with the Programme for Government, and what the link is between the money that goes in and its contribution to impacts and outcomes.

The second key theme of that checklist is about improving information on productivity, efficiency and outcomes. Although that is slightly retrospective, by asking the right questions in a current dimension, one can begin to get to the heart of the quality of the decision-making. The final element of the checklist is about better collaboration and joint working. That asks whether management has considered developing partnership approaches that might be able to deliver the same outcomes for fewer inputs or a better outcome for the same level of finance. By applying those good practice checklists, we are not questioning the merits of policy, but we are teasing out the quality of the decision-making and the quality of the information that underpins it.

**Mr McLaughlin:**

If the Audit Office were to second staff or to provide support to the scrutiny Committees, I suppose that you could manage to walk the challenging tightrope between policy and financial management. However, I envisage that that could be a stressful position for your personnel to be in. The discussion between the politicians on those Committees can sometimes be free-flowing and undisciplined, and the need to watch that boundary and to think ahead to the process would put your colleagues in a difficult spot.

We have to consider that type of support to Committees as one of the available options, and you have been very forthright in setting that out for us. I am concerned that one of the consequences of that degree of overlap could be a blurring of the currently discrete role of the Audit Office and, by extension, the Public Accounts Committee. Have you considered any examples of that particular option being employed by legislative Assemblies or structures? Does it work in practice?

**Mr Donnelly:**

The Public Accounts Committee has primacy on the reports of the Audit Office, as is the case in all the legislatures. For example, the report on financial management in the Health Service was referred to the Health Committee last year. That was done at the call of the Public Accounts Committee, because it decided that there was insufficient time in its programme for it to take evidence. The same happens in Wales, where its Public Accounts Committee has an option to refer reports to other Committees when it is unable to accommodate scrutiny of those reports in its own programme. The background to the health case is that we had three or four reports at that time and not all of them could be taken in oral evidence by the PAC. Other Committees may have the capacity to deal with reports that the PAC cannot attend to within a reasonable timescale. That sort of thing happens in other legislatures, too.

The National Audit Office has been producing performance briefings for Select Committees at Westminster for four or five years. That does not cut across the work that it does for the PAC — it is a separate product line — nor does it take the National Audit Office into the area of policy, because those reports tend to focus on performance, particularly financial performance, capability, skills and performance against targets set in public service agreements. Therefore, it is not in the policy domain.

**Mr McLaughlin:**

Finally, if we were to explore the option of your team providing support on a cyclical basis, what would that mean in any given Assembly term in the context of us having 12 Committees?

**Mr Donnelly:**

In practical terms, it would mean that it would probably take three or four years to get round all 12 Departments and, perhaps, that some of the higher spending Departments would come first in any potential pecking order.

**Mr McLaughlin:**

Would the cycle not come around more often?

**Mr Donnelly:**

In any cycle, it would be important to get round the entire system in a reasonable period of time. It would depend on the sort of issues that there were in particular Departments and the interests of particular Committees. Therefore, there would need to be some sort of flexibility.

**The Chairperson:**

In the course of the inquiry, the Committee is seeing a gap, in that there is no oversight body for the work of looking at future budgets and financial planning and, in particular, of measuring the outputs and outcomes of that which went before to see whether it is working or whether it needs to be changed. Your office is not connected to any Department. You have that oversight function without being tied to a specific Department.

I want to ask about the time and services that you can provide to Committees. At the moment, although Committees have no role in looking at future financial planning, they have a role in scrutinising what has gone before and what is currently happening in their relevant Departments. Are you talking about coming in to advise Committees when they ask for your advice? How would that work in practice? Your paper states that you want to give much higher profile to the potential for better financial management in public services. I am trying to understand how that would work in relation to Committees.

**Mr Donnelly:**

I see us having an advisory role through which we would provide independent, expert advice and support to Committees and their members. In reality, there is nothing much in the briefs produced, for example, by the National Audit Office that is not already in the public domain. However, the National Audit Office brings together in a one-stop shop a lot of material from diverse sources and expresses it in language that lay people can understand. Potentially, that is where we can bring something to the table, by cutting through some of the complexities and explaining, in simple terms, what the key issues are.

**The Chairperson:**

Thank you for coming. We will be in touch.

**Mr Donnelly:**

I want to make one final comment. In my role, I am completely independent of public bodies and, formally, am an officer of the Assembly. That independence is key.

**The Chairperson:**

Thank you very much.