

Audit Committee

Report on the Estimate of the Northern Ireland Audit Office 2015-16

**Together with the Minutes of Proceedings of the Committee, Minutes of Evidence and
other Evidence Considered by the Committee Relating to the Report**

Ordered by the Audit Committee to be printed on 28 April 2015

Committee Powers and Membership

1. The Audit Committee is a Standing Committee of the Northern Ireland Assembly established in accordance with Section 66 of the Northern Ireland Act 1998 and Assembly Standing Order No. 58. The Committee has 5 members including a Chairperson and Deputy Chairperson and a quorum of 2.
2. The Committee:
 - Exercises the functions mentioned in Section 66(1) of the Northern Ireland Act 1998. The Committee therefore agrees, in place of the Department of Finance and Personnel, the estimates of the NIAO and lays them before the Assembly; and
 - Is responsible for tabling a motion for a resolution of the Assembly relating to the salary payable under Article 4(1) of the Audit (Northern Ireland) Order 1987 to the holder of the office of the Comptroller and Auditor General.
3. The Chairperson of the Audit Committee also has a lead role in the recruitment of the Comptroller and Auditor General.
4. The membership of the Committee is as follows:
 - Mr Danny Kinahan (Chairperson)
 - Mr David Hilditch (Deputy Chairperson)
 - Mr Dominic Bradley¹
 - Ms Anna Lo
 - Ms Michaela Boyle²

1 Mr Dominic Bradley replaced Miss Margaret Ritchie with effect from 23rd April 2012

2 Ms Michaela Boyle replaced Mr Paul Maskey with effect from 17th September 2012

Table of Contents

| | |
|--|----|
| Report | 1 |
| Annex A | |
| Northern Ireland Audit Office Estimate 2015-16 | 9 |
| Appendix 1 | |
| Other Evidence considered by the Committee | 25 |
| Appendix 2 | |
| Minutes of Proceedings | 37 |
| Appendix 3 | |
| Minutes of Evidence | 45 |

Report on the Estimate of the Northern Ireland Audit Office 2015-16

Introduction

1. Article 6(2) of the Audit (Northern Ireland) Order 1987 provides for the Comptroller and Auditor General (C&AG) to prepare for each financial year an estimate of the use of resources by the Northern Ireland Audit Office (NIAO).
2. Section 66 of the Northern Ireland Act 1998, and Standing Order 58 (1), provide for the Assembly's Audit Committee (in place of the Department of Finance and Personnel (DFP)) to lay that estimate before the Assembly. The Committee may agree modifications to the estimate with the C&AG before it is laid before the Assembly. In carrying out this function the Committee has regard to the advice of the Assembly's Public Accounts Committee (the PAC) and DFP.
3. This report sets out, at Annex A, the agreed estimate for 2015-16.

Background to the estimate

4. Each year, in advance of considering the annual estimate, the Audit Committee meets to consider a draft corporate plan for the NIAO. The draft plan is prepared by the C&AG. It sets out the NIAO's key strategic aims for the next three year period; how the NIAO proposes to deliver these aims; the resources that are required by the NIAO to do so; and its key performance measures. The draft corporate plan is an important document for the Audit Committee as it provides the necessary background and context to enable the estimate to be agreed.
5. At its meeting on 2 December 2014, the Audit Committee considered and approved the NIAO's draft Corporate Plan for the years 2015-2016 to 2017-2018. Included in this plan was a section on both the proposed resource requirement and the proposed use of resources over the plan period. The plan set out a net resource requirement of £8.2 million for 2015-16, which would have amounted to the same net resource requirement that had previously been made for 2014-15. A net resource requirement of £8.2 million equates to a DFP/ Executive budget figure of £8.39 million.
6. The Committee also noted at this meeting, however, that the Executive's draft budget was out for consultation. The Committee noted that in his statement to the Assembly on 3 November 2014 on the draft budget the Finance Minister had said:

"In line with the independent role that they exercise, savings targets have not been imposed on the Assembly Commission, Audit Office and Assembly Ombudsman. However, I have every expectation that these bodies will have due regard for the overall budget position in 2015-16 and that they would seek to manage their internal pressures from within their overall resource allocations and seek to achieve similar savings, returning any efficiencies to the Executive for re-distribution."
7. The Committee welcomed the apparent recognition of the NIAO's independence and the acknowledgement that it would therefore be inappropriate for the Executive to seek to impose savings targets upon it. The Committee informed the Minister of its position that the NIAO should continue to build on the savings it had achieved over the past five years while pointing out, however, that the potential for savings had significantly diminished and the scope of the audit services that the NIAO could provide was likely to be constrained under existing funding provision, unless it restructures.

8. The Executive's final Budget for 2015-16 was laid before the Assembly on 19 January and approved by it on 27 January 2015. In his statement to the Assembly on the final Budget on 19 January 2015 the Finance Minister said:

"I want to say something about the Assembly Ombudsman, the Northern Ireland Audit Office and the Northern Ireland Assembly, all of which were protected from reductions at Draft Budget stage. At that time it was made clear that in times when the broad public sector was under such pressure, there would be a clear expectation from both the Executive and the general public that these institutions would also provide some degree of savings. Unfortunately, with the exception of the Ombudsman who did at least try to identify some savings, that has not been the case, and, both I and Executive colleagues have been dismayed by the attitude taken by these bodies. I do not believe that these institutions are run so efficiently that they cannot play some part in keeping budgets to a minimal level. Therefore the Executive has agreed to reduce the Northern Ireland Audit Office, Assembly Ombudsman and the Northern Ireland Assembly Commission's budgets by 5%".

9. In fact, the Executive's agreed Final Budget for 2015-16 applied a 5 per cent reduction to the figure of £8.2 million (and not the budget forecast of £8.39 million in the draft Corporate Plan), resulting in a resource budget allocation of £7,875,000, or alternatively a net resource requirement of £7,684,000 for 2015-16. Either way, this would result in a reduction of £516,000 (over 6 per cent) against the 2015-16 forecast in the original NIAO Corporate Plan 2015-16 to 2017-18.
10. The Committee was very disappointed that the Executive's final Budget included a figure in respect of the NIAO which had not been agreed by the Committee. The Finance Minister has said that DFP and the Executive respect the NIAO's independence. However, this will continue to be open to question when the Executive publishes budget figures for the NIAO which this Committee has not agreed in advance. The Committee looks forward to this issue being resolved through a protocol with DFP and urges the Minister to agree the proposed Memorandum of Understanding between the Assembly and the Executive on the Budget Process where such a protocol can be included.
11. The Committee wrote to the Finance Minister and pointed out that that the Executive's Budget does not and cannot pre-empt the Committee's role of agreeing the estimate for the Audit Office. However, as outlined below, in agreeing the estimate for the NIAO for 2015-16, the agreed final Budget has been a significant factor in the Committee's consideration.

The estimate prepared by the C&AG

12. The C&AG prepared his estimate of the use of resources by the NIAO for 2015-16 for consideration by the Committee at its meeting on 14 April. He also submitted to the Committee a revised draft Corporate Plan for the years 2015-2016 to 2017-2018. The estimate provides for expenditure by the NIAO on "Providing audit and other assurance services and promoting economy, efficiency and effectiveness in the use of public funds and resources (audit and assurance services; promoting economy, efficiency and effectiveness in the use of public funds and resources; conducting exercises to assist in fraud)". This ostensibly covers the full scope of the work set out in the NIAO's initial and revised Corporate Plan.
13. The key figures in the estimate are not consistent with the figures set out in the NIAO's initial draft Corporate Plan. Instead they are consistent with the figures contained within the Executive's final budget. The estimate therefore provides for a net resource requirement of £7,686,000. This is a 6.3% reduction from the agreed net resource requirement of £8,200,000 for 2014-15. Further detail, drawing on the figures contained within the revised Corporate Plan, is set out in the tables below:

Comparison of previous annual financial provision with Executive Budget 2015-16

| | 2012-13 Main Estimate £'000 | 2013-14 Main Estimate £'000 | 2014-15 Main Estimate £'000 | 2015-16 Executive Budget (converted to NRR) £'000 |
|-----------------------------------|--|--|--|--|
| Net Resource Requirement | 8,414 | 8,327 | 8,200 | 7,686 |
| Increase/(Decrease) in cash terms | | (1.0%) | (1.5%) | (6.3%) |
| GDP deflator | | 2.12 | 1.7 | 1.4 |
| Increase/(Decrease) in real terms | | (3.1%) | (3.2%) | (7.6%) |

Proposed use of resources

| | 2014-15 Main Estimate £'000 | 2015-16 Forecast £'000 | 2016-17** Forecast £'000 | 2017-18** Forecast £'000 |
|---|--|---------------------------------------|---|---|
| Staff | 7,500 | 7,610 | | |
| Outsourced: | | | | |
| Staff (temporary) | 180 | 14 | | |
| Consultancy | 45 | 20 | | |
| Contracted out audit | 1,332 | 1,260 | | |
| General expenditure* | 1,766 | 1,480 | | |
| Gross resource requirement | 10,823 | 10,384 | | |
| Income | (2,623) | (2,398) | | |
| Net resource requirement | 8,200 | 7,986 | 7,986 | 7,986 |
| Deficit | - | (300) | (300) | (300) |
| Net resource requirement based on Executive Budget | 8,391 | 7,686 | 7,686 | 7,686 |

* General Expenditure in 2014-15 includes costs incurred in the National Fraud Initiative. This is carried out biennially and leads to some fluctuation in General Expenditure between years.

** 2015-16 forecasts have been rolled forward to these years

14. In a memorandum to the Committee accompanying the estimate, the NIAO warns that this estimate may potentially impact on the quality and scope of service and support the NIAO can provide to the Assembly (particularly to the PAC). It also highlights the risk of the NIAO not being able to deliver its statutory obligations.
15. The revisions in the corporate plan were made to reflect the net resource requirement in the prepared estimate. In fact, the revised corporate plan forecasts a net resource requirement for 2015-16 of £7,986,000, based on current staffing levels. The plan points out that this is £300,000 more than is available to the NIAO in the Executive's budget (and £300,000 more than is set out in the estimate). The NIAO say that it is proceeding with the voluntary exit scheme to help bridge this gap.

16. The Plan also warns that should the NIAO not realise the extent of savings it requires from this scheme or other projected savings do not fully mature, it will be at risk of exceeding the Executive's budget. It also warns that if the voluntary exit scheme does not provide the savings required, a reduction of contracted out audits may commence in the second half of 2015-16, impacting on upwards of 25 audits, including the majority of health service accounts.

Advice of the Public Accounts Committee

17. In its advice to the Committee (which is included at Appendix 1), the PAC expresses "grave concern" at the estimate, noting that it presents "very significant challenges to the Audit Office's ability to maintain the current level and quality of services to PAC and the wider Assembly". The PAC also describes the proposed reduction "as completely unacceptable" saying that "it seriously compromises the independence of the Audit Office, its ability to fulfil its statutory obligations and deliver its services fully to the Assembly".
18. The question of independence arises in particular in circumstances where the NIAO is reliant upon the Executive to make up any shortfall during monitoring rounds.
19. The PAC asks the Audit Committee to review the draft estimate in light of its concerns.

Advice of the Department of Finance and Personnel

20. In its advice to the Committee (which is included at Appendix 1), DFP notes that the NIAO achieving a net resource requirement of £7,686,000 is predicated on the securing of in-year funding for and successfully implementing a voluntary exit scheme. The advice from DFP cautions that (at the time of the advice being prepared) the availability of funding for public sector voluntary exit schemes is not yet formally confirmed and that it cannot be certain that NIAO would receive funding in year one of the scheme.
21. The DFP advice also raises some accounting and technical issues. Subject to these comments DFP was otherwise content with the draft estimate provided.

Evidence Session with the C&AG and NIAO officials

22. At its meeting on 14 April the Committee took evidence from the C&AG and NIAO officials on the prepared estimate. The Committee took this opportunity to seek clarification in relation to the risks associated with it. The Committee also sought the C&AG's comments on the advice of PAC and DFP. The transcript of this evidence session is included at Appendix 3.
23. During this session the CA&G explained that an extra £200,000 in the net resource requirement would significantly reduce the NIAO's risk exposure. £200,000 is calculated by taking the £300,000 deficit identified in the revised Corporate Plan and offsetting this by £100,000 (which is to be made available from a central fund to cover additional superannuation costs). The C&AG said that in such a scenario he would be fully committed to handing back any savings arising as a result of the voluntary exit scheme.

The Committee's consideration and conclusions.

24. The Committee can agree with the C&AG modifications to the estimate that he has prepared. In light of the evidence it received the Committee gave careful consideration to a proposal that the estimate should be modified by increasing the net resource requirement by £200,000. Ultimately, however, the Committee was not persuaded that such a modification could be justified.

25. In coming to this conclusion the Committee has noted the reductions that have been made right across the public sector as a result of the Executive's final Budget for 2015-16. The Committee has also noted a research paper in relation to the cost reductions made by the NIAO since 2010 in comparison to the reductions made by ministerial and non-ministerial departments in Northern Ireland. This paper is included at Appendix 1.
26. The Committee has therefore agreed, without modification, the estimate prepared by the C&AG. In doing so, it shares his unease. The Committee would much prefer to be in a position where it could agree an estimate that provided for additional resources. The Committee recognises, and the Assembly should be aware, that the reduction to the NIAO's budget has the potential to impact upon the services that it delivers.
27. The Committee does not want to see a situation where the NIAO lacks the necessary resources to provide effective support to the Assembly in its task of holding departments, executive agencies and other public bodies to account for their use of public money. This would not be in the public interest. However, the reality of the current financial position, as acknowledged by the Assembly when approving the Executive's final budget, cannot be overlooked. Cuts are being made right across the public sector and the NIAO needs to accept its fair share of these.
28. The Committee wants to see the NIAO sustain, as far as possible, a similar service to that provided at present through continued efficiencies in its audit methodologies. However, given the risks that the C&AG has identified, and the relatively small sums of money involved relative to the overall budget, it is vital that the NIAO receives, at the earliest opportunity, sufficient funding from the Executive's transformation fund to allow it to both reduce its permanent staff numbers by 10% and making the savings required by this estimate.
29. It may be the case that either the timing of, or uptake in relation to, the voluntary exit scheme does not allow the NIAO to make the savings necessary to live within this estimate. If so, there will be a funding deficit between the work that the Committee wants to see the NIAO carry out and the resources that it has to make this happen. Understandably the C&AG prioritises avoiding a situation where the NIAO has an Excess Vote. The Committee respects this position. However, the Committee also recognises, particularly in light of the significant savings the NIAO identifies across the public sector every year, that our public finances would be worse off if the NIAO had to scale back on its value for money work.
30. The Finance Minister has told the Committee that he respects the independence of the NIAO. He has assured the Committee that it is neither his intention, nor that of the Executive, to under-fund the NIAO. The Committee welcomes this assurance. In order to give effect to this assurance the Committee expects that the Finance Minister and the Executive will ensure that, should a funding shortfall arise as a result of insufficient savings being made from the NIAO's voluntary exit scheme, this would be addressed during monitoring rounds. The funds required to do this would be relatively minimal but could have a significant impact.

Conclusion

31. The NIAO has made significant savings in recent years. It must continue to pursue efficiencies and cost reductions wherever possible. This includes through restructuring and through reducing its permanent staff numbers. The estimate that the Audit Committee has agreed with the C&AG reflects this. However, there remains uncertainty in relation to the savings that the NIAO can make during 2015-16 as a result of a voluntary exit scheme. Should it not prove possible to make sufficient savings from this scheme then it is crucial that the NIAO receives the shortfall at monitoring rounds. The Committee believes that we must not lose sight of what could be lost if the NIAO was not provided with adequate resources to properly serve the Assembly.



Northern Ireland
Assembly

Annex A

Northern Ireland Audit Office Estimate 2015-16

Northern Ireland Audit Office – Estimate for 2015-16

Memorandum

1. Responsibility for the agreement of the Northern Ireland Audit Office's Estimate lies with the Audit Committee of the Northern Ireland Assembly. Under the Northern Ireland Act 1998, in agreeing the Office's Estimate the Audit Committee must have regard to the advice of the Public Accounts Committee and the Department of Finance and Personnel (DFP).
2. The draft NIAO Corporate Plan 2015-16 to 2017-18 considered by the Audit Committee on 2 December 2014 proposed a Net Resource Requirement for 2015-16 of £8,200,000. The plan advised that in terms of the budgetary framework applied by the Northern Ireland Executive (the Executive), this equated to a resource budget of £8,391,000.
3. On 19 January 2015, the Executive published its final budget for 2015-16, providing the NIAO with a resource budget of £7,875,000. This equates to an Estimate Net Resource Requirement of £7,686,000 which is £514,000 (6.3 per cent) less than proposed in the draft Corporate Plan.
4. Having significantly decreased its Estimate provision over the past number of years, the Office remains fully committed to achieving savings and cost reductions wherever possible, though as recognised in the draft Corporate Plan, considers that the scope for so doing has considerably reduced without a restructuring exercise. This is now being taken forward (see paragraph 6 below).
5. Having full regard to the Executive's 2015-16 final budget, we have carried out a further in-depth analysis of our financial projections. To realise additional cost savings, we have pared back planned expenditure as far as we can, including in the areas of accommodation, consultancy, temporary appointments and training, and taken staffing decisions, including not filling a vacant HR post and temporarily standing down our student placement programme. These savings are partially offset by an increase to our pay bill of an estimated £150,000 to cover increases in ASLC (superannuation) rates announced by DFP in February 2015. We understand that we may have access to central funding in 2015-16 to alleviate this increase, but due to the uncertainty around this, have not factored it into our projections.
6. Based on the above, we anticipate a deficit between our forecast financial requirements and the Executive's Final Budget in the region of £300,000 to £350,000 in 2015-16. To help bridge this gap, and on the assumption that natural staff wastage will be low given prevailing market conditions and the age profile of the Office, we are proceeding with a Voluntary Exit Scheme closely based on that of the Northern Ireland Civil Service. For this to make a meaningful impact on our financial situation, we would require access to Tranche 1 of the scheme as early as possible in 2015-16 and full uptake by those offered release – we estimate that a reduction of at least nine staff will be required. If the Office does not realise the savings it requires from the scheme, or other projected savings do not mature, it will require additional funding through the in-year monitoring exercises run by DFP. Should such bids be unsuccessful, an Excess Vote will arise – a matter of extreme concern for the Office given the nature of its role and the potential for reputational damage.
7. It is clear that the Executive's reduction to the NIAO budget will present significant challenges to the Office in terms of (1) achieving the cost reductions and (2) delivering its services. Short term expedients will be required which will cut across the medium and longer term interests of the Office. Also, delivery will require prioritisation. Potentially, this may impact on the quality and scope of service and support we can provide to the Assembly, in particular the Public Accounts Committee, and other stakeholders. We may not be able to deliver on statutory obligations, including the audit of some accounts. **This will be addressed in more detail in the updated Corporate Plan for the period 2015-16 to 2017-18.**

8. Subject to the risks set out above, we have prepared the 2015-16 Estimate using the Executive's final resource budget for the Office of £7,875,000, adjusting components of this total to align with our known requirements.

9. The key figures in the Estimate for 2015-16 are:

- the net resource requirement of £7,686,000;
- a proposed capital expenditure figure of £40,000; and
- a net cash requirement of £8,060,000.

A reconciliation to the Executive's resource budget is as follows:

| | 2015-16 Forecast £'000 |
|--|-----------------------------------|
| Resource Requirement | |
| Net Resource Requirement (Main Estimate) | 7,686 |
| Add Consolidated Fund Standing Services | 194 |
| Less Notional Charges | (5) |
| Resource Budget Requirement | 7,875 |
| Of which: | |
| Non-Ringfenced Resource DEL | 7,714 |
| Ringfenced Resource DEL (Depreciation) | 225 |
| Annually Managed Expenditure | (64) |

Northern Ireland Audit Office

20 March 2015

Main Estimate, 2015-16, NIAO

NORTHERN IRELAND AUDIT OFFICE

Introduction

1. The Northern Ireland Audit Office provides independent assurance on the proper accounting for public expenditure, revenue, assets and liabilities, including compliance with laws and regulations; promotes economy, efficiency and effectiveness in the use of public resources and undertakes exercises to assist in the prevention and detection of fraud.

Main Estimate, 2015-16, NIAO

PART I

| | |
|--|------------------|
| | £ |
| RfR A: Providing audit and other assurance services and promoting economy, efficiency and effectiveness in the use of public funds and resources. | |
| Net Resource Requirement | 7,686,000 |
| Net Cash Requirement | 8,060,000 |

Amounts required in the year ending 31 March 2016 for use by the Northern Ireland Audit Office on:

RfR A: Providing audit and other assurance services and promoting economy, efficiency and effectiveness in the use of public funds and resources:

audit and assurance services; promoting economy, efficiency and effectiveness in the use of public funds and resources; conducting exercises to assist in fraud prevention and detection; administration; related services and associated non-cash items.

The **Comptroller and Auditor General for Northern Ireland** will account for this Estimate.

| | Net Total | Allocated in Vote on Account | £ Balance to Complete |
|----------------------|--------------|------------------------------------|-----------------------------|
| RfR A: | 7,686,000 | 3,645,000 | 4,041,000 |
| Net Cash Requirement | 8,060,000 | 3,821,000 | 4,239,000 |

Main Estimate, 2015-16, NIAO

Part II Subhead Detail Including Resource to Cash Reconciliation

£'000

| 2015-16 | | | | | | 2014-15 | 2013-14 | | | |
|--|---------------|--------|-------------|--------------------|-----------|---------|----------------------------------|---------------------|---------------------|-------|
| Resources | | | | | | Capital | | Provision | Outturn | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 | |
| Admin | Other Current | Grants | Gross Total | Accruing Resources | Net Total | Capital | Non-operating Accruing Resources | Net Total Resources | Net Total Resources | |
| RfR A: Providing audit and other assurance services and promoting economy, efficiency and effectiveness in the use of public funds and resources. | | | | | | | | | | |
| - | 10,084 | - | 10,084 | 2,398 | 7,686 | 40 | - | 8,100 | 8,173 | |
| Departmental Expenditure in DEL: | | | | | | | | | | |
| A-1: Audit and Assurance Services | | | | | | | | | | |
| - | 10,079 | - | 10,079 | 2,398 | 7,681 | 40 | - | 8,095 | 7,906 | |
| Annually Managed Expenditure (AME): | | | | | | | | | | |
| <i>Audit and Assurance Services</i> | | | | | | | | | | |
| - | - | - | - | - | - | - | - | - | 100 | |
| Non-Budget: | | | | | | | | | | |
| A-2: Notional Charges | | | | | | | | | | |
| - | 5 | - | 5 | - | 5 | - | - | 5 | 167 | |
| Total: | - | 10,084 | - | 10,084 | 2,398 | 7,686 | 40 | - | 8,100 | 8,173 |

| Resource to Cash Reconciliation | | | £'000 |
|---|-------------------|-------------------|-----------------|
| | 2015-16 Provision | 2014-15 Provision | 2013-14 Outturn |
| Total Net Resources | 7,686 | 8,100 | 8,173 |
| Capital Items | | | |
| Capital | 40 | 40 | 136 |
| Total net capital | 40 | 40 | 136 |
| Accruals to cash adjustments | | | |
| Depreciation, impairments and revaluations | -225 | -220 | -275 |
| New provisions and adjustments to previous provisions | - | - | -100 |
| Notional charges | -5 | -5 | -167 |
| Movement in working capital | 500 | 500 | -475 |
| Use of provisions | 64 | 75 | 67 |
| Total accruals to cash adjustments | 334 | 350 | -950 |
| Net Cash Required | 8,060 | 8,490 | 7,359 |

Main Estimate, 2015-16, NIAO

Part III Extra Receipts Payable to the Consolidated Fund**£'000**

In addition to Accruing Resources the following income and receipts relate to the Northern Ireland Audit Office and are payable to the Consolidated Fund (*cash receipts being shown in italics*):

| | 2015-16 Provision | | 2014-15 Provision | | 2013-14 Outturn | |
|---|----------------------|-----------------|----------------------|-----------------|--------------------|-------------------|
| | Income | <i>Receipts</i> | Income | <i>Receipts</i> | Income | <i>Receipts</i> |
| Operating income and receipts - excess accruing resources | - | - | - | - | 57 | <i>100</i> |
| Operating income not classified as accruing resources | - | - | - | - | 3 | <i>3</i> |
| Amounts collected on behalf of the Consolidated Fund | - | - | - | - | 4 | <i>32</i> |
| Total: | - | - | - | - | 64 | <i>135</i> |

Main Estimate, 2015-16, NIAO

Statement of Comprehensive Net Expenditure

£'000

| | 2015-16 Provision | 2014-15 Provision | 2013-14 Outturn |
|---------------------------------------|----------------------|----------------------|--------------------|
| Net Administration Costs | | | |
| Request for Resources A | 7,880 | 8,294 | 8,305 |
| Total Net Administration Costs | 7,880 | 8,294 | 8,305 |
| NET OPERATING COST | 7,880 | 8,294 | 8,305 |
| NET RESOURCE REQUIREMENT | 7,686 | 8,100 | 8,173 |
| RESOURCE BUDGET | 7,875 | 8,289 | 8,141 |

Main Estimate, 2015-16, NIAO

| Reconciliation of Resource Expenditure Between Estimates, Accounts and Budgets | £'000 | | |
|---|------------------------------|------------------------------|----------------------------|
| | 2015-16 Provision | 2014-15 Provision | 2013-14 Outturn |
| Net Resource Requirement (Estimates) | 7,686 | 8,100 | 8,173 |
| <i>Adjustments to include:</i> | | | |
| Consolidated Fund Standing Services | 194 | 194 | 192 |
| Consolidated Fund Extra Receipts (CFERs) in the SoCNE | - | - | -60 |
| Net Operating Cost (Accounts) | 7,880 | 8,294 | 8,305 |
| <i>Adjustments to remove:</i> | | | |
| Notional charges | -5 | -5 | -167 |
| Consolidated Fund Extra Receipts (CFERs) outside the Budget | - | - | 3 |
| Resource Budget | 7,875 | 8,289 | 8,141 |
| <i>Of which:</i> | | | |
| Departmental Expenditure Limit (DEL) | 7,939 | 8,364 | 8,108 |
| Annually Managed Expenditure (AME) | -64 | -75 | 33 |

| Main Estimate, 2015-16, NIAO | | | |
|--|------------------------------|------------------------------|----------------------------|
| Reconciliation of Capital Expenditure Between Estimates and Budgets | £'000 | | |
| | 2015-16 Provision | 2014-15 Provision | 2013-14 Outturn |
| Net Capital (Estimates) | 40 | 40 | 136 |
| Capital Budget | 40 | 40 | 136 |
| <i>Of which:</i> | | | |
| Departmental Expenditure Limit (DEL) | 40 | 40 | 136 |
| Annually Managed Expenditure (AME) | - | - | - |

Main Estimate, 2015-16, NIAO

Accruing Resources Analysis

£'000

Detail

| | 2015-16 Provision | | 2014-15 Provision | | 2013-14 Outturn | |
|--|----------------------|---------------------------|----------------------|---------------------------|--------------------|---------------------------|
| | Operating ARs | Non - operating ARs | Operating ARs | Non - operating ARs | Operating ARs | Non - operating ARs |
| RfR A: Providing audit and other assurance services and promoting economy, efficiency and effectiveness in the use of public funds and resources. | | | | | | |
| Audit and Assurance Services | 2,398 | - | 2,623 | - | 2,215 | - |
| Total for RfR A: | 2,398 | - | 2,623 | - | 2,215 | - |

* Amount that may be applied as accruing resources arising from the provision of audit and assurance services; data matching exercises; recoupment of salary and associated costs for seconded staff; recovery of administration costs; related income and sundry receipts.

Main Estimate, 2015-16, NIAO

Notional Charges in Non-Budget

£'000

| 2015-16 | | | | | | 2014-15 | 2013-14 | | |
|--|---------------|--------|-------------|--------------------|-----------|---------|------------------------------------|---------------------|---------------------|
| Resources | | | | | | Capital | Provision | Outturn | |
| 1 | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |
| Admin | Other Current | Grants | Gross Total | Accruing Resources | Net Total | Capital | Non - operating Accruing Resources | Net Total Resources | Net Total Resources |
| RfR A: Providing audit and other assurance services and promoting economy, efficiency and effectiveness in the use of public funds and resources. | | | | | | | | | |
| Audit and Assurance Services | | | | | | | | | |
| - | 5 | - | 5 | - | 5 | - | - | 5 | 167 |
| Total RfR A: | | | | | | - | - | 5 | 167 |

Total Notional Charges:

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|-----|
| - | 5 | - | 5 | - | 5 | - | - | 5 | 167 |
|---|---|---|---|---|---|---|---|---|-----|

Detail

| | 2015-16 Provision | 2014-15 Provision | 2013-14 Outturn |
|--|----------------------|----------------------|--------------------|
| RfR A: Providing audit and other assurance services and promoting economy, efficiency and effectiveness in the use of public funds and resources. | | | |
| Legal services | 4 | 4 | - |
| Property and valuation services | 1 | 1 | - |
| IT services | - | - | 167 |
| Total RfR A: | 5 | 5 | 167 |
| Total Notional Charges: | 5 | 5 | 167 |

Main Estimate, 2015-16, NIAO

Consolidated Fund Extra Receipts (CFERs) Analysis

£'000

Detail

In addition to Accruing Resources the following income and receipts relate to Northern Ireland Audit Office and are payable to the Consolidated Fund (*cash receipts being shown in italics*):

| | 2015-16 Provision | | 2014-15 Provision | | 2013-14 Outturn | |
|---------------------------|----------------------|-----------------|----------------------|-----------------|--------------------|-------------------|
| | Income | <i>Receipts</i> | Income | <i>Receipts</i> | Income | <i>Receipts</i> |
| Excess accruing resources | - | - | - | - | 57 | <i>100</i> |
| Recoupment of legal costs | - | - | - | - | 4 | <i>32</i> |
| Other | - | - | - | - | 3 | <i>3</i> |
| Total: | - | - | - | - | 64 | <i>135</i> |

Main Estimate, 2015-16, NIAO

Explanation of Accounting Officer Responsibilities

The Department of Finance and Personnel has appointed the Comptroller and Auditor General for Northern Ireland, Mr Kieran Donnelly, as Accounting Officer for the Northern Ireland Audit Office with responsibility for preparing the Office's Estimate.

The responsibilities of an Accounting Officer, including responsibility for the propriety and regularity of the public finances for which an Accounting Officer is answerable, for keeping proper records and for safeguarding the Office's assets, are set out in Managing Public Money Northern Ireland.

Notes to the Estimate:

1. The provision sought for 2015-16 is 5.1 per cent lower than the final net provision for 2014-15.



Northern Ireland
Assembly

Appendix 1

Other Evidence considered by the Committee

Advice from DFP on the NIAO Estimate 2015-16



Ian Fleming

Public Spending Directorate

Supply Division

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Balloo Road, Bangor, BT19 7NA

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Paul Gill
Clerk to the Audit Committee,
Parliament Buildings,
Stormont,
Belfast
BT4 3XX

XX March 2014

Dear Paul

NIAO Main Estimate 2015-16

NIAO has provided DFP with a copy of its draft Main Estimate for 2015-16. As you will be aware, under the Northern Ireland Act (1998) the Audit Committee must, when considering the approval of this Estimate, have regard to the advice of the DFP and I have therefore set out our comments below.

The provision sought in this Estimate is for a resource requirement of £7,686k which represents a reduction of 5.1% compared to the final provision for 2014-15. However I note at paragraph 6 of the memorandum that achieving this is predicated on the securing in-year funding for and successfully implementing a voluntary exit scheme. I would have to caution at this stage that the availability of funding for public sector voluntary exit schemes is not yet formally confirmed nor can it be certain that NIAO would receive funding in year one of the scheme.

The Estimate shows a total resource budget requirement of £7,875k comprising £7,714k of non-ring-fenced resource DEL, £225k of ring-fenced resource DEL (for depreciation and impairments) and -£64k of annually managed expenditure (AME).

Paragraph 8 of the memorandum refers to the Estimate reflecting the Assembly's final resource budget of £7,875k. However this budget only relates to DEL expenditure and the inclusion in the Estimate of a release of £64k from provisions in AME creates a related DEL payment pressure in the same amount so that the full DEL resource requirement in the Estimate is £7,939k (£64k higher than the DEL budget approved by the Assembly).

I would additionally note that the Assembly approved budget included provision for a ring-fenced resource DEL allocation of £325k for depreciation and impairments which differs from the allocation of £225k in the Estimate. To adjust for this NIAO will need to seek a switch of £100k from ring-fenced DEL to non-ring-fenced DEL in monitoring rounds. However it should be noted that this switch may be dependent on non-ring-fenced DEL being available through release from other departments.

Subject to the above comments I can confirm that DFP is otherwise content with the draft Estimate provided.

I hope you find this helpful.

Yours sincerely,

Ian Fleming

cc

Emer Morelli

Carmel Reid

Graeme Houston

Andrew Allen

Advice from the PAC on the NIAO Estimate 2015-16



**Northern Ireland
Assembly**

PUBLIC ACCOUNTS COMMITTEE

Mr Danny Kinahan MLA
Chairperson,
Audit Committee
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lucia.wilson@niassembly.gov.uk

Dear Danny

26 March 2015

Northern Ireland Audit Office Draft Estimate and Memorandum

The PAC considered the Northern Ireland Audit Office's proposed estimate for 2015-2016 which sets out a reduction in the budget of £514,000 (6.3%).

The Committee wishes to express grave concern at the reduced budget which presents very significant challenges to the Audit Office's ability to maintain the current level and quality of services to PAC and the wider Assembly.

The PAC regards this proposed reduction as completely unacceptable as it seriously compromises the independence of the Audit Office, its ability to fulfil its statutory obligations and deliver its services fully to the Assembly.

Given our Committees' shared interest in the independence of the Audit Office, I would ask that the Audit Committee review this draft estimate in light of PAC's concerns. Notwithstanding this, it is also the Committee's view that the NIAO is able to access the voluntary exit scheme as soon as possible. Failure to do so will result in the C&AG being unable to achieve the required level of savings required to deliver its service to the Assembly and fulfil its statutory obligations.

Finally, please could you notify this Committee of your deliberations on this matter as it develops.

Yours sincerely,

Michaela Boyle MLA
Chairperson



Northern Ireland
Assembly

Research and Information Service Briefing Paper

Paper 000/00

2 April 2015

NIAR 205-15

Public Finance Scrutiny Unit

NIAO budget for 2015-16

This Briefing Note provides context for the Audit Committee's consideration of the Northern Ireland Audit Office's (NIAO) estimate for 2015-16. In particular, it compares the budget reductions the NIAO has delivered since 2010-11 with the reductions delivered by ministerial and non-ministerial departments in Northern Ireland.

Introduction

The purpose of this Note is to provide the Northern Ireland Assembly's Audit Committee with some background information in relation to expenditure reductions in the Northern Ireland public sector. It is intended to inform Committee Members' consideration of the spending reductions for the (Northern Ireland Audit Office) NIAO, as proposed in the Executive's Budget 2015-16.

- Section 1 briefly outlines key definitions.
- Section 2 compares allocations for 2015-16 with the opening and final monitoring positions for 2010-11.
- Section 3 provides discussion of the figures.

1. Definitions

In looking at budget allocations, this Note focuses on non-ringfenced resource Departmental Expenditure Limits (DEL). These allocations are the most relevant in relation to day-to-day running costs, rather than investment in assets. In addition, it is resource DEL funding – as opposed to capital DEL – which has been the Executive’s primary budgetary difficulty over recent months.

‘Resource expenditure’ is a term used interchangeably with ‘current’ costs (or expenditure), meaning spending on the day-to-day running of departments and the delivery of public services, i.e. non-capital. Resource money is further divided into ‘non-ringfenced’ and ‘ringfenced’.

Put simply, non-ringfenced resource expenditure includes all programme costs, pay costs and other administrative expenditure. Ringfenced resource expenditure includes depreciation and impairments: these are non-cash accounting measures that reflect the cost of capital and assets. Ringfenced resource allocations cannot be applied to other purposes.

The reason for focusing on non-ringfenced resource DEL arises from the Executive having a degree of scope/flexibility with this expenditure category; any excess non-ringfenced resource funding may be reallocated between departments or programmes. Ringfenced resource DEL underspends simply return to the Treasury. They are not recycled through In-year Monitoring to other departments.

2. Budget allocations for 2015-16

Table 1 below provides a comparison of the opening monitoring position for ministerial and non-ministerial departments, including the NIAO.

Table 1: Change in Non-ringfenced Resource totals – Opening Monitoring Position 2010-11 to allocation in Budget 2015-16.¹

| Dept | 2010-11 | 2015-16 | % change |
|-----------------|---------------|----------------|----------------|
| £million | | | |
| DARD | 214.1 | 189.9 | -11.30% |
| DCAL | 107.8 | 91.7 | -14.94% |
| DE | 1914.2 | 1914.2 | 0.00% |
| DEL | 798.1 | 707.9 | -11.30% |
| DETI | 195.0 | 202.8 | 4.00% |
| DFP | 160.9 | 141.2 | -12.24% |
| DHSSPS | 4175.0 | 4697.9 | 12.52% |
| DOE | 126.2 | 104.2 | -17.43% |
| DOJ | 1148.9 | 1044.7 | -9.07% |
| DRD | 391.1 | 333.6 | -14.70% |
| DSD | 511.5 | 590.6 | 15.46% |
| OFMDFM | 79.8 | 67.9 | -14.91% |
| Total | 9822.6 | 10086.6 | 2.69% |
| AOCC | 1.6 | 2.3 | 43.75% |
| FSA | 9.5 | 8.4 | -11.58% |
| NIA | 44.5 | 38.7 | -13.03% |
| NIAO | 9.2 | 7.6 | -17.39% |
| NIAUR | 0.5 | 0.2 | -60.00% |
| PPS | 34.7 | 32.4 | -6.63% |
| Total | 100.0 | 89.6 | -10.40% |

The following observations may be made about Table 1:

- The NIAO's opening budget allocation for 2015-16 is 17.39% lower than the 2010-11 opening position.
- Non-ministerial departments' aggregate allocation for 2015-16 is 10.40% lower than the 2010-11 opening position.
- Ministerial departments' aggregate allocation for 2015-16 is 2.69% higher than the 2010-11 opening position.
- The large allocations to some departments, the Department of Health, Social Services and Public Safety (DHSSPS) in particular, somewhat distorts the overall pattern of allocations to ministerial departments: eight of the twelve departments' allocations decreased by between 9.07% and 17.43%.

1

Source: e-mail from DFP to RaISe, dated 1 September 2014, and Budget 2015-16.

- The Department of Social Development (DSD) opening budget allocation increased significantly over the period. This is because Housing Benefit and discretionary elements of the Social Fund were reclassified by the Treasury from Annually Managed Expenditure (AME) to DEL in 2013-14.

Table 2 provides a comparison of the final monitoring position for ministerial and non-ministerial departments, including the NIAO, in 2010-11 to the allocation in the Executive's 2015-16 Budget. The implications of measuring reductions in different ways are discussed in section 3 of this Briefing Note.

Table 2: Change in Non-ringfenced Resource totals – Final Monitoring Position 2010-11 to allocation in Budget 2015-16.²

| Dept | 2010-11 | 2015-16 | % change |
|-----------------|----------------|----------------|-----------------|
| £million | | | |
| DARD | 236.7 | 189.9 | -19.77% |
| DCAL | 107.4 | 91.7 | -14.62% |
| DE | 1927.0 | 1914.2 | -0.66% |
| DEL | 884.3 | 707.9 | -19.95% |
| DETI | 204.3 | 202.8 | -0.73% |
| DFP | 173.7 | 141.2 | -18.71% |
| DHSSPS | 4234.1 | 4697.9 | 10.95% |
| DOE | 142.6 | 104.2 | -26.93% |
| DOJ | 1340.6 | 1044.7 | -22.07% |
| DRD | 409.7 | 333.6 | -18.57% |
| DSD | 558.1 | 590.6 | 5.82% |
| OFMDFM | 76.5 | 67.9 | -11.24% |
| Total | 10295.0 | 10086.6 | -2.02% |
| AOCC | 1.8 | 2.3 | 27.78% |
| FSA | 8.9 | 8.4 | -5.62% |
| NIA | 43.0 | 38.7 | -10.00% |
| NIAO | 8.3 | 7.6 | -8.43% |
| NIAUR | 0.1 | 0.2 | 100.00% |
| PPS | 32.6 | 32.4 | -0.61% |
| Total | 94.7 | 89.6 | -5.39% |

The following observations may be made about Table 2:

- The NIAO's opening budget allocation for 2015-16 is 8.43% lower than the 2010-11 opening position.
- Non-ministerial departments' aggregate allocation for 2015-16 is 5.39% lower than the 2010-11 opening position.
- Ministerial departments' aggregate allocation for 2015-16 is 2.02% lower than the 2010-11 opening position.

3. Discussion

Committee Members are asked to note the difference between the opening and final monitoring positions for 2010-11 in Tables 1 and 2 provided above. In total, ministerial departments' allocations **increased** from £9,822.6 million (m) at opening monitoring to £10,295.0m at final monitoring. This reflects additional allocations that were made during the 2010-11 year.

Committee Members are also asked to note that, in total, non-ministerial departments' allocations **decreased** from £100m at opening monitoring to £94.7m at final monitoring. This reflects reduced requirements for resources during the 2010-11 year.

These observations are important because they illustrate that caution is required when comparing budget figures from one year to the next. Comparing monitoring totals from the opening position gives a rather different picture from comparing monitoring totals from the final position. This is because monitoring totals change during the year after the Monitoring Rounds.

For example, total resources for non-ministerial departments in 2015-16 are £89.6m. Comparing this with the **final position** from 2010-11 indicates a reduction of 5.39%. But comparing 2015-16 with the **opening position** from 2010-11 indicates a reduction of 10.4% - nearly double the reduction.

For NIAO itself, total resources from the Executive 2015-16 Budget are £7.6m. Comparing this with the **final position** from 2010-11 indicates a reduction of 8.43%. But comparing 2015-16 with the **opening position** from 2010-11 indicates a reduction of 17.39% - more than double the reduction.

The need for caution is emphasised because, on 11 February 2015, the Minister for Finance and Personnel wrote to the Audit Committee stating:

...the 5% Budgetary savings recommended by the Executive [for NIAO] are significantly less than those which other departments are being asked to deliver. For example my own Department, leading by example, will have to realise savings in excess of 9% during 2015-16.³

The reductions cited by the Minister in his letter refer to the changes between the 2015-16 final budget allocation, and the baseline – shown in Table 3 below. This baseline was derived by rolling forward of the 2014-15 opening position, and then adjusting to remove time-bound Executive allocations and European Union (EU) funding.⁴

3 Letter to CAudit 11 February 2015, DFP ref COR/48/2015

4 <http://aims.niassembly.gov.uk/officialreport/minutesofevidencereport.aspx?AgendaId=10516&evidID=6634>

Table 3: Non-ringfenced resource DEL⁵

| | Emillion | | |
|--|-----------------|-----------------|--------------|
| | 2015-16 | | |
| | Baseline | Final Budget | % Change |
| Agriculture and Rural Development | 197.6 | 189.9 | -3.9% |
| Culture, Arts and Leisure | 99.9 | 91.7 | -8.3% |
| Education | 1,943.7 | 1,914.2 | -1.5% |
| Employment and Learning | 756.2 | 707.9 | -6.4% |
| Enterprise, Trade and Investment | 184.2 | 202.8 | 10.1% |
| Finance and Personnel | 155.9 | 141.2 | -9.4% |
| Health, Social Services and Public Safety | 4,542.7 | 4,697.9 | 3.4% |
| Environment | 116.6 | 104.2 | -10.7% |
| Justice | 1,089.0 | 1,044.7 | -4.1% |
| Regional Development | 335.5 | 333.6 | -0.6% |
| Social Development | 653.9 | 590.6 | -9.7% |
| Office of the First Minister and Deputy First Minister | 65.8 | 67.9 | 3.2% |
| Non Ministerial Departments | | | |
| Assembly Ombudsman/Commissioner for Complaints | 1.8 | 2.3 | 24.4% |
| Food Standards Agency | 8.5 | 8.4 | -0.5% |
| NI Assembly | 40.7 | 38.7 | -5.0% |
| NI Audit Office | 7.9 | 7.6 | -5.0% |
| NI Authority for Utility Regulation | 0.1 | 0.2 | 158.7% |
| Public Prosecution Service | 32.7 | 32.4 | -1.0% |
| Total Planned Spend | 10,232.6 | 10,176.1 | -0.6% |

Totals may not add due to rounding

The reductions from the 2010-11 opening and final monitoring positions to the 2015-16 allocations tell different stories, as shown in Table 4.

Table 4: different measures of budget reductions

| | DFP | NIAO |
|---|---------|---------|
| Table 1 reduction 2010-11 Opening Monitoring to 2015-16 | -12.24% | -17.39% |
| Table 2 reduction 2010-11 Final Monitoring to 2015-16 | -18.71% | -8.43% |
| Table 3 reduction Baseline to 2015-16 | -9.40% | -5.00% |

The figures in Table 4 clearly show that the percentage reductions to a department's budget vary according to the measure which is used: the reductions shown in Tables 2 and 3 are less severe for the NIAO than for the Department of Finance and Personnel (DFP), whereas the measure used in Table 1 is the other way around.

It may be possible to argue that the measure used in Table 3 is most appropriate because it relates to the most recent reference point. On the other hand, such a measure fails to take any account of the movements in budgets over the longer term. In addition, this measure cannot reflect the influence on any in-year changes to allocations.

Scrutiny Point:

The Audit Committee may wish to ask both the NIAO and DFP for their individual views on the most appropriate measure, including full explanation of their rationale.



Northern Ireland
Assembly

Appendix 2

Minutes of Proceedings

Tuesday, 2 December 2014

Room 21, Parliament Buildings

Present: Mr Danny Kinahan (Chairperson)
Mr David Hilditch (Deputy Chairperson)
Ms Michaela Boyle
Ms Anna Lo

In Attendance: Mr Paul Gill (Assembly Clerk)
Mrs Hilary Cleland-Bogle (Assistant Clerk)
Mr Jonathan Kerr (Clerical Officer)

Apologies: None

3.33pm The meeting commenced in open session

7. Provision for the NIAO in the Draft NI Budget 2015-16

Members noted the Clerk's paper, the NIAO Paper; correspondence from the Committee for Finance and Personnel; and a Briefing Paper from Assembly Research.

Following discussion the Chairperson thanked Mr Donnelly and his colleagues for attending the meeting.

Agreed: The Committee agreed the Committee response to the consultation on the draft Budget.

[EXTRACT]

Monday, 26 January 2015

Room 21, Parliament Buildings

Present: Mr Danny Kinahan (Chairperson)
Mr David Hilditch (Deputy Chairperson)
Ms Michaela Boyle
Mr Dominic Bradley
Ms Anna Lo

In Attendance: Mr Paul Gill (Assembly Clerk)
Mrs Hilary Cleland-Bogle (Assistant Clerk)
Mr Jonathan Kerr (Clerical Officer)

Apologies: None

12.32pm The meeting commenced in open session

6. Provision for the NIAO in the 2015-16 Budget

Members noted the Clerk's Paper; the NIAO Paper on the 2015-16 Budget; and associated papers.

The Chairperson invited Mr Donnelly to brief the Committee on the NIAO Paper.

Following discussion the Chairperson asked Mr Donnelly and his colleagues for attending the meeting.

The meeting moved into closed session.

The Clerk briefed the Committee on the role of the Audit Committee in agreeing the NIAO Estimate.

Agreed: Following discussion the Committee agreed that the Chairperson should write to the Minister for Finance and Personnel setting out the Committee's position.

Agreed: The Committee agreed its lines to take during the Budget debate on Tuesday, 27th January 2015 (should the opportunity to speak on behalf of the Committee arise).

Agreed: The Committee agreed that the Clerk should commission legal advice as discussed.

[EXTRACT]

Tuesday, 14 April 2015

Room 21, Parliament Buildings

Present: Mr David Hilditch (Deputy Chairperson)
Ms Michaela Boyle
Ms Anna Lo

In Attendance: Mr Paul Gill (Assembly Clerk)
Mrs Hilary Cleland-Bogle (Assistant Clerk)
Mr Jonathan Kerr (Clerical Officer)

Apologies: Mr Danny Kinahan (Chairperson)
Mr Dominic Bradley

3.36pm The meeting commenced in open session

5. **NIAO Estimate 2015-2016**

Members noted the Clerk's Paper; the NIAO Estimate for 2015-2016 and accompanying Memorandum; and various related papers.

The Chairperson briefed the Committee on the background to this issue.

3.38pm Ms Lo joined the meeting.

The Chairperson welcomed to the meeting Mr Kieran Donnelly, Comptroller and Auditor General; Ms Janet Sides, Assistant Auditor General; Mr Brandon McMaster, Director of Business Improvement; Mr Andrew Allen, Audit Manager; and Mr Richard Emerson, Audit Manager.

The Committee noted that the evidence session with the NIAO would be recorded by Hansard.

The Chairperson invited Mr Donnelly to brief the Committee on the NIAO Estimate for 2015-2016.

Following discussion the Chairperson thanked Mr Donnelly and his colleagues.

The meeting moved into closed session.

Members noted legal advice on the Committee's functions and a briefing paper comparing the budget reductions the NIAO has delivered since 2010-11 with the reductions delivered by ministerial and non-ministerial departments in Northern Ireland.

The Chairperson welcomed Tara Caul, Head of Legal Services Office; and Jonathan McMillen, Legal Adviser and invited Ms Caul to brief the Committee on the legal advice.

Following discussion the Chairperson thanks Ms Caul and Mr McMillen for attending the meeting.

The Committee then discussed the findings in the briefing paper.

The Committee considered the advice of both the Public Accounts Committee and the Department of Finance and Personnel.

The Committee discussed its various options.

Ms Boyle proposed that the Estimate should be modified by increasing the net resource requirement by £200,000.

The Committee divided:

| Ayes | Noes | Abstentions |
|-------------------|---------------------------------|--------------------|
| Ms Michaela Boyle | Ms Anna Lo Mr David Hilditch | None |

The proposal fell.

Agreed: The Committee agreed the NIAO Estimate for 2015-16 as prepared by the C&AG.

Agreed: The Committee agreed that the Clerk should prepare a draft Committee Report for consideration by the Committee at its next meeting.

[EXTRACT]

Tuesday, 28 April 2015

Room 21, Parliament Buildings

Present: Mr David Hilditch (Deputy Chairperson)
Ms Michaela Boyle
Ms Anna Lo

In Attendance: Mr Paul Gill (Assembly Clerk)
Ms Claire McCanny (Senior Assistant Assembly Clerk)
Mr Jonathan Kerr (Clerical Officer)
Ms Alison Ferguson (Clerical Officer)

Apologies: Mr Danny Kinahan (Chairperson)

15.31pm The meeting commenced in open session.

5. Committee Report on the NIAO Estimate for 2015-16

Members noted the draft Committee Report on the NIAO Estimate for 2015-2016.

The Clerk briefed the Committee on the background to this issue and on suggested amendments to the draft report.

Agreed: Following discussion the Committee agreed the draft Committee Report on the NIAO Estimates for 2015-16 as amended.

Agreed: The Committee agreed that the Committee Powers and Membership and Table of Contents should form part of the Report.

Agreed: The Committee agreed that Appendix 1 'Other Evidence considered by the Committee' should form part of the Report.

Agreed: The Committee agreed that Appendix 2 'Minutes of Proceedings relating to the Report' should form part of the Report.

Agreed: The Committee agreed that Appendix 3 'Minutes of Evidence relating to the Report' should form part of the Report.

Agreed: The Committee agreed that the tabled extract of today's Minutes of Proceedings should be included in Appendix 1 of the report.

Agreed The Committee ordered the Report on the Estimates of the Northern Ireland Audit Office 2015-16 to be printed.

Agreed: The Committee agreed that the Chairperson should write to the Finance Minister setting out the Committee's position.

[EXTRACT]



Northern Ireland
Assembly

Appendix 3

Minutes of Evidence

14 April 2015

Members present for all or part of the proceedings:

Mr David Hilditch (Deputy Chairperson)
Ms Michaela Boyle
Ms Anna Lo

Witnesses:

Mr Kieran Donnelly *Comptroller and Auditor General*

Mr Andrew Allen *Northern Ireland*

Mr Richard Emerson *Audit Office*

Mr Brandon McMaster

Ms Janet Sides

1. **The Deputy Chairperson (Mr Hilditch):** From the Northern Ireland Audit Office (NIAO), we welcome Mr Kieran Donnelly, the Comptroller and Auditor General; Ms Janet Sides, assistant auditor general; Mr Brandon McMaster, director of business improvement and communications; Mr Andrew Allen, audit manager; and Mr Richard Emerson, audit manager. I advise the Committee that the evidence will be reported by Hansard. We invite Mr Donnelly to brief the Committee on the 2015-16 Estimate.
2. **Mr Kieran Donnelly (Comptroller and Auditor General):** Thank you very much, Chair, for the opportunity to brief you on our proposed Estimate for 2015-16. At the outset, I feel that it is important to state that the office, in carrying out its functions, is totally independent of the Executive. That is enshrined in legislation and includes that the Audit Committee of the Assembly rather than the Executive should agree the office's annual Estimate and lay it before the Assembly. However, the Executive have set a Budget for 2015-16 incorporating the NIAO, and that has been approved by the Assembly. That pre-empted the setting of our 2015-16 Estimate. The Estimate before you is, of course, based, subject to a couple of adjustments, on the Budget approved by the Assembly. I present

this Estimate with considerable unease, given the financial pressures that will be placed on the office and the potential repercussions if we do not balance the books in 2015-16.

3. Before getting into the detail of the Estimate, it would be remiss of me not to highlight a couple of contextual points. The first is the need for a properly resourced professional independent audit service in this period of significant change in the public sector. Those changes involve substantial reductions to departmental budgets, and the impact of that change should not be underestimated. The second point is that, our audit work, particularly the public reporting side, yields significant savings well in excess of the annual costs of running the office. For every £1 that we spend, a saving of between £2 and £5 is generated by the work of the office. It follows that any reduction to our budget is likely to have some impact on the potential of the office to identify efficiencies across the public sector.
4. I will give a couple of examples of where we have achieved major financial impacts. These impacts are calculated conservatively and are independently validated. In the three national fraud initiative exercises that we have participated in since 2008, £30 million was saved. In a recent report on primary care prescribing, there were very significant potential savings in the order of anywhere between £20 million and £70 million. Another area in which we have made great strides is working in partnership with DARD to improve controls and reduce the level of disallowances. Since 2006, there have been about £70 million of disallowances to DARD. We have worked in partnership with it, and the controls have tightened. The EU is very happy with that work, and the level of disallowance will go down

- very significantly. There is an enormous saving from that.
5. Any reduction in our budget has the potential to impact the services that we deliver. Having regard to the Executive's Budget, we have revisited our financial planning and examined all areas of expenditure for additional savings and cost reductions. In doing that, we recognise that we are doing some things as short-term expedients that cut across the medium- and longer-term interests of the office and value for money. We have pared back, for example, expenditure on training, but we do not want to do that in the medium or longer term. Training is essential in a professional office. The provision sought in the 2015-16 Estimate, working to the Executive's Budget, is 5.1% lower than the net provision for 2014-15. If we take our savings plan into account and pare back everything that we can, including training, consultancy and down to some very small things, we still have a funding shortfall of £300,000. We have previously reported that the office has made significant savings over the years, and, of course, we will endeavour to realise further savings going forward. The bottom line is that we have limited ability to do that without reducing our pay bill, because 70% of our office's expenditure is permanent salaries. We can cut, for example, some secondees from the universities in their placement year. That is very easy to turn off, but it is a false economy in the long run. We cannot turn the permanent staff salary bill off so easily. Some reduction has already been made through suppressing unfilled vacancies. We have put our graduate trainee accountancy scheme on hold.
 6. Set against this, we have an extra pressure this year of £150,000 to cover increases to superannuation costs, because employer rates have gone up. DFP announced that in February. We may have access to some central funding to alleviate that, and news on that came out only yesterday, which is one semi-positive. Overall, the office has limited scope to reduce its pay bill without a significant intervention, so we have launched a voluntary exit scheme, aimed at reducing permanent staff numbers by up to 10%. That would result in the first exits taking place at the end of October 2015. Our annual workforce planning has highlighted the fact that our staffing needs would reduce in any event over the next four years. Benchmarking with other Audit Offices has identified that we have some excess staff at management grades, while the restructuring of local government, education and central government Departments will reduce the scale of financial work, but that will not really happen until about 2018-19. Up to then, we expect that, because of challenges that will arise from the merger of public bodies and the transfer of functions, there will be only limited savings.
 7. It is worth noting that there is a one-year time lag between the establishment of any new entity and the audit of its first year accounts, so, for example, the accounts of the new Departments being established in April 2016 will not be audited until the following year, which will be 2017-18. There is a lag before we get any efficiency out of that. While we have some capacity to reduce permanent staff levels, as in any business, we would like to have managed the reduction of staff on a more gradual basis up to 2018-19, in line with the rationalisation of public bodies. However, the extent of savings required of us in 2015-16 means that we have no option but to proceed immediately with reducing our permanent staff numbers to an affordable level. Given that any pay bill savings from that will accrue only at the end of October 2015, which is halfway through this financial year, we will have to realise double the number of staff than if the savings had accrued from April this year. Any savings will kick in only halfway through the financial year.
 8. We have made a bid for £1.2 million from the Executive's transformation fund. However, we have no certainty over the timing or the amount of funding that we will secure from the scheme

- or, significantly, the uptake by staff. It is very difficult to predict. It will take several months for a clear picture to emerge, and it is only at that point that we will be in a position to assess the full implications for our work. We will know at the end of April whether our bid to the transformation fund has been successful and how much money we are likely to get. By 8 May, we will know how many staff have applied to the scheme, but it will be early July before we know how many have accepted the offer, so there is a lot of uncertainty. Gradually, as the year progresses, that uncertainty will decrease.
9. We have also introduced internal change to bring about greater flexibility and innovation in the use of resources to meet business needs. That will assist us significantly in reducing our temporary appointments. That is from a budget of £180,000 in 2014-15 right down to £14,000 in 2015-16, so we are really paring that budget way back. What that means is that we expect our staff to work across financial audit and public reporting to a much greater extent than before. If we take the reduction of temporary appointments together with the implementation of the voluntary exit scheme, we have the possibility of releasing up to 14 staff. That is the maximum number in the second half of 2015-16. That will bring with it the loss of skills and knowledge. We will need fairly early prioritisation of what we can deliver.
10. Our focus will be on sustaining, as far as possible, a similar service to that provided at present through continued efficiencies in our audit methodologies, but, in reality, budget reductions may have a negative impact on our statutory obligations. I will cover two issues. The first statutory obligation is on the accounts. We have a very good track record of delivering financial audits and audits of accounts. For almost all Departments, agencies and health bodies, the accounts have been audited by the summer recess. That means that the accounts are closed and audits are signed off within three months of the financial year end. That conforms to the best commercial practice for listed companies.
11. In securing that target, we have been assisted by some private sector accountancy firms, which help us over that workload peak. What would happen in a worst-case scenario? We might have to consider terminating some of those contracted-out financial audits. At the moment, it is 12% of our gross expenditure. In that worst-case scenario, we would have to stand down some of those contracts and do the work ourselves, which would have a negative impact on our delivery. We would not have the capacity for our existing staff to absorb the work, so there could be delays in those accounts. That would be a worrying position.
12. What is a worst-case scenario? A worst-case scenario is if we do not get traction and movement on the voluntary exit scheme and if the fallback position of getting money through a monitoring round did not materialise either. In that scenario, my first priority would be to balance the books, so I would have to do whatever was necessary to do that. The other side of that is what would be the impact on the scope and quality of our public reporting, including the value-for-money studies that we produce and the work that we do for the Public Accounts Committee (PAC). It is likely that we will not be able to do as many complex studies as before, particularly those studies that cut across Departments and require a lot of work across the Civil Service, the health service and quango-land. An example of such a study is one that we did a year or so ago on collaborative procurement, which cut right across the public service, the health service and the Civil Service. It was an enormously beneficial study. All the recommendations were accepted by DFP. All the Public Accounts Committee recommendations were accepted. Everybody agreed that there was potential for tens of millions of pounds of savings if those recommendations were implemented, but we do not do those studies cheaply.

- In that particular study, we had to do an awful lot of legwork ourselves simply because the basic management information was not there in the Civil Service system. That is an example. We could not afford to do as many complex studies, so we would have to cut our cloth and look at our product range.
13. What are the implications if we cannot balance the books? First and foremost, we would have to seek bids through the Executive's in-year monitoring exercise, but there is no guarantee of success in that. If funding were unavailable, it would leave us in the position of having an Excess Vote. That means that we would exceed the provision voted by the Assembly. That would be a very unpalatable position because we would be included in the report on Excess Votes that I am responsible for providing to the Public Accounts Committee. We look at everybody else's. We would really want to avoid such a situation. It would be damaging to the Audit Office and would impact our credibility and reputation.
14. In summary, what are the risks to the office in this Estimate? There are two separate scenarios. The first scenario is if we do not get traction on the voluntary exit scheme, and various things could happen. You will see that there are no guarantees of anything, even in that DFP letter. Unofficially, we are confident that we will get some funding from that, although we may not get all that we ask for. There is then uncertainty about the traction and how many staff will be interested. We cannot call that yet. We will be able to call that later in the year. In the public service as a whole, there are a lot of public reports of significant interest in the scheme in the Civil Service. That may not read across to our office because of our age structure, so there is uncertainty. We will know how that pans out within the next couple of months.
15. The opposite scenario is if we do get traction on the voluntary exit scheme. That means that we will be taking out between nine and 14 staff at some point. As I said, if we were phasing this over three or four years, we could handle that. However, you cannot take that number of staff out of a small organisation without its having a short-term detrimental impact on the work, particularly as you would be losing the more experienced and skilled staff. There are risks both ways. The bigger risk in terms of balancing the books is if we do not get traction on the voluntary exit scheme. That is a summary of where we are.
16. In closing, we fully appreciate the need to play our part in these times of financial constraint. However, I felt it appropriate to register fully with you my concerns about the implications of this Budget.
17. **The Deputy Chairperson (Mr Hilditch):** Thanks very much for outlining your position, Kieran. We have had some communications with PAC and DFP. Will you elaborate on both those areas and what you make of it?
18. **Mr Donnelly:** I can indeed.
19. **The Deputy Chairperson (Mr Hilditch):** It has given us a bit of a situation when we are coming at it nearly from two different ways.
20. **Mr Donnelly:** First, I had the opportunity to brief PAC on the Estimate just before Easter, and I expressed similar concerns to those I have raised today. The PAC letter of 26 March raises fundamental issues arising from the reduced Budget. I suppose the key point is the sheer challenge we would face in maintaining the current level and quality of service that we provide to the Committee and the wider Assembly. The other point is the risk of compromising our independence. It is very important that the people we audit do not dictate the Budget: that is a simple point. The key point coming out of DFP's letter was DFP's note of caution on the availability of funding for the voluntary exit scheme. Nothing is guaranteed there, so there is uncertainty; but that uncertainty will diminish. There are some other technical points in the DFP letter around fine points of distinction between the

- Estimate and the Budget, which Janet will say a quick word about.
21. **Ms Janet Sides (Northern Ireland Audit Office):** The Estimate aligns with the overall Budget requirements, but we have a lesser need, the depreciation figure, which is ring-fenced resource and is presented in the Budget. Therefore, we propose transferring some of that into the non-ring-fenced DEL. This is quite technical. At the same time, we require an additional £64,000. That is the figure referred to in DFP's letter, and it is to cover the payment of pensions to former NIAO staff who retired early. The NIAO pays these costs until the member of staff reaches 60, which is the normal retirement age. We have also incorporated that into the non-ring-fenced DEL, which is the point that DFP has raised in its letter.
22. **The Deputy Chairperson (Mr Hilditch):** You outlined the risk in relation to service delivery and the difficulties you would face with the current Estimate. What would be the difference if the net resource requirement were increased by £300,000?
23. **Mr Donnelly:** If it were increased by £300,000, we would avoid the worst case scenario I described there; there is no doubt about that. In other words, it would reduce the uncertainty and risk. It would mean that we would not be subject to the vagaries of the monitoring rounds. It means then that if the voluntary exit scheme did not work, we would have a fallback position. On the other hand, if the scheme did work, we would be in a position to surrender some money back to the system. It would be a much safer option. The pitch may be £300,000 or £200,000. I mentioned earlier that we were going to incur an additional cost of well over £100,000 on our superannuation costs. Until yesterday, we were going to have to pick up the tab for that. However, there may be some comfort on that, which would give us a release of £100,000. Really, what we are saying is that to mitigate the worst, £200,000 would significantly reduce our risk exposure; that is the way that we would put it.
24. **The Deputy Chairperson (Mr Hilditch):** OK. You mentioned the figures and the potential for the voluntary exit scheme to work for you. Would you then be committed to handing back savings at the monitoring rounds?
25. **Mr Donnelly:** Absolutely. We would be fully committed to handing back any money we did not need at any of the monitoring round stages. The real difficulty in this is that we have to pitch an Estimate at a point in time. There is an enormous amount of uncertainty as to how things are going to pan out at this stage, and that uncertainty will gradually diminish as the year progresses.
26. **Ms Lo:** It is worrying. You have your statutory obligation and, in a way, your independence is at stake. However, you then have to think that other Departments are getting big cuts. I have just come from Question Time with the Environment Minister on budgets and the voluntary sector. What about raising income? Can you increase your fees to Departments when you audit them? Is there any way of doing that?
27. **Mr Donnelly:** It is an interesting question. There are some things that we charge for. Most of what we do is not chargeable. Maybe the best way to explain this is that the audit is not for the auditee; it is for you, the Assembly. You are the customer, and the Assembly pays me to do the audit. In other words, the DOE does not pay me to audit its books; you pay me to audit DOE's books. That is important for our independence. So, it is back to the constitutional point. For example, we do not charge for our value-for-money reports. That is funded by you. If there were to be a charge, I could imagine that every auditee would be quibbling at the cost.
28. There are some audits that we do charge for. They are more in quango-land on the financial audit side — in other words, we do not charge for the financial audits of the health service. The issue is whether that could be expanded. In theory, we could charge

- more, but we expect that, pound for pound, DFP and the system would say that we need a public expenditure system (PES) transfer; so, it would just be a corresponding reduction in the Budget. In Budget terms, it would be quite neutral. It would work if we had no consequential reduction to the Budget. I do not have a figure off the top of my head for the percentage of audits that are charged. It is probably around 20% and it is just an historical thing. The further bodies are from the centre of government the more there has tended to be a charge.
29. **Ms Lo:** I cannot find the page now but this year, off the top of my head, your estimated income will drop by about £20,000 compared to last year. Is that correct? Why is that?
30. **Ms Sides:** That alludes to the national fraud initiative which is run every other year. Last year, we had about £200,000 of income in respect of the national fraud initiative. Is that the right figure?
31. **Mr Donnelly:** Yes.
32. **Ms Sides:** So, we will not receive any substantial income from that initiative this year, but we will do so next year. It runs every other year, and that is why the income varies between years.
33. **Ms Lo:** For the next three years, beyond this year, you will see an increase in income.
34. **Mr Donnelly:** Local government audit is one area that we fully charge for. It is entirely right to make the distinction between central government work and local government work; one is not subsidising the other. With the reform of local government, the type of audit will be expanded when the reforms come through. So, there will be increased income that will flow eventually through next year on that. That work stands on its own and wipes its face.
35. **Ms Lo:** OK. Thank you.
36. **Ms Boyle:** In this current climate, we all understand that everybody has to tighten the purse strings. That is a given. Every Department is facing budgetary constraints. But it goes back to something you said earlier, Kieran, about a false economy. When you look at this, what has been created is something similar. In an ideal world, as regards public sector reform, I am sure you would like to be left alone for a few years.
37. **Mr Donnelly:** Yes.
38. **Ms Boyle:** When you are talking about rationalising services, there has to be a cost. We are trying to make savings, but there has to be a cost that comes along with that. I see the cost as being the savings you have to make in order for savings to be made elsewhere. I think that is a false economy, and, in an ideal scenario, you would be left alone.
39. **Mr Donnelly:** We recognise that we have to do our bit. As I said in my talk, we are doing things that run against our gut instinct. We are doing things that we have to do to balance the books but that do not make sense in terms of the longer-term development. To be fair, every other Department will be in the same boat. For expediency, they are doing things to balance the books that may not make sense in the longer term. You can sustain that for a while. There are some things that we paring back in our budget, where we stripped out £200,000. We want to reinstate some of those things down the track when things get better.
40. **Ms Boyle:** Absolutely.
41. **Mr Donnelly:** For example, we have suspended the secondments of placement students. That is excellent value for money, and we have excellent people in there, but it is one of those expedient things that we have to turn off because we can do so just to balance the books.
42. **Ms Boyle:** We are coming to the end of this Assembly term, and I am sitting here hoping that whoever is on this Committee or the Public Accounts Committee in a few years' time will not look back and say, "That was a disaster". I believe that that will happen

- and that it will be considered a disaster, but there you go.
43. **The Deputy Chairperson (Mr Hilditch):** Kieran, during your presentation, I thought that you indicated — maybe I got this wrong — that there is a higher level of management staff employed by the Audit Office. Is that right?
44. **Mr Donnelly:** We have benchmarked our staffing structure with other public audit bodies, and we think that, if we are going to make reductions anywhere, it would be easier to streamline the management grades. We need the front-line staff to do the audits, but there is some potential to flatten the structures and widen the spans of control of managers to just a bit less management. This is a safer way of doing it than by cutting front-line staff. That is our assessment. It will not be dramatic, but we think we could pare back a bit at each grade. That is why the voluntary exit scheme is essential. We are not going to get that through natural wastage.
45. **Ms Boyle:** Kieran, as regards the transformational fund, I know you said that it will be the end of April, but is there any early indication that you might be successful in that?
46. **Mr Donnelly:** You see from the DFP letter that there is no answer. We are in detailed discussions with DFP and are hopeful.
47. **Mr Brandon McMaster (Northern Ireland Audit Office):** We are hopeful. We do not know how much we are likely to get. Our bid has been put in and has been accepted. There are lots of bids in there and the fund will no doubt be divvied up on a pro rata basis. We will get something, but we do not know how much. The C&AG mentioned that, hopefully, by the end of this month we will know formally that our bid is successful and how much we are likely to get, and that will then give us something to move forward with.
48. The C&AG highlighted the risks regarding staff interest in the scheme. We may get a significant number of people interested, and Mr Hilditch quite rightly highlighted what we said in the corporate plan in that we have excess capacity at management grades. We have indicated to staff that we will give priority to applications from staff at those levels, but it is one thing for a person to express an interest in the scheme and then say yes to the offer when they have to finally make up their mind. They can reject it. We will not know how many people will accept the offers made to them until early July.
49. **Mr Donnelly:** And what the balance of interest will be between the management grades and other staff — there is a lot of uncertainty.
50. **Ms Lo:** That is more or less my question. Kieran, you said that you have to reduce by up to 14 staff, which is 10% of your budget. Is it purely about trying to balance the books, or was it decided after an analytical assessment that 14 staff could go?
51. **Mr Donnelly:** There are two points in that. As I said earlier, if we were left to our own devices we would need to pare back numbers to prepare for 2018-19 when government is rationalised, when local authority reforms have been fully worked through, when we have downsized the number of Departments and when the education and library authority is up and running. The thing will have stabilised by that stage. We have to do this more quickly to balance the books. We have to take the hit up front.
52. **Mr McMaster:** We carry out an annual workforce planning exercise where we go back to basics and work up our staffing needs. We did that for the corporate plan, but when the budget cut came in and we were told we had to project forward to 2018-19 and determine what the changes would mean then, the C&AG said, basically, “We have to take the hit now in terms of reducing staff”.
53. **Ms Lo:** Quicken the process.
54. **Mr McMaster:** Yes. So, if we get all the money we need and the full uptake in terms of staff leaving the organisation,

- then for the next two-and-a-half years we are basically going to have to work on a staffing complement that is more appropriate to 2018-19. That is basically where we are, and, again, as has been highlighted, this has implications for what we can deliver.
55. **Ms Lo:** How many of your staff have expressed an interest in the scheme?
56. **Mr McMaster:** The scheme was launched yesterday.
57. **Ms Lo:** Oh. [Laughter.] Some Departments are saying they know already. Is that right?
58. **Mr McMaster:** The Civil Service scheme was launched earlier than ours; our scheme was formally launched yesterday. There have been some expressions of interest at this stage; there have also been some expressions of non-interest.
59. **Ms Lo:** Staying put.
60. **Mr McMaster:** I do not know whether that is the case or not.
61. Our scheme is open until 8 May. On 8 May, we will know how many people have expressed an interest. Obviously, we will keep a daily tally of where we are, but at this point you are probably talking about 10 staff having expressed an interest or no interest.
62. **The Deputy Chairperson (Mr Hilditch):** Any modification to the draft scheme needs to be agreed with you. Can you be clear, Kieran, about the modifications you would be prepared to agree?
63. **Mr Donnelly:** Do you mean modifications to the Estimate?
64. **The Deputy Chairperson (Mr Hilditch):** Yes.
65. **Mr Donnelly:** I would be extremely happy if it were £300,000 more. I said earlier that if it were £200,000 more that would significantly reduce my office's risk exposure. If things went better than expected in that scenario, we would be in a position to give money back.
66. **The Deputy Chairperson (Mr Hilditch):** OK. Thank you. That concludes the formal evidence on the NIAO Estimate for 2015-16. If appropriate or required, the Committee will be in touch about potential modifications to the Estimate.



Published by Authority of the Northern Ireland Assembly,
Belfast: The Stationery Office

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£10.50

Printed in Northern Ireland by The Stationery Office Limited
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ISBN 978-0-339-60576-3

