

**MINUTES OF AUDIT AND RISK ASSURANCE COMMITTEE (ARAC) MEETING
HELD TUESDAY 27 FEBRUARY 2018 at 2pm.**

Members Present: Aine Gallagher (Non-Executive Member – Chair)
Gillian Body (Non-Executive Member)
Paul Douglas (Non-Executive Member)
Pat Cumiskey (Non-Executive Member)

In Attendance: Pamela McCreedy (Chief Operating Officer)
Rodney Allen (Director)
Colette Kane (Director) – for Risk Management
Brian McFetridge – External Audit (Baker Tilly Mooney Moore)
Steve Connors – Internal Audit (Haines Watt)
Norma Connelly (Senior Auditor)
Louise Donnelly (Secretary)

1. Meeting of Committee Members only

A meeting of Committee members took place before the main meeting.

Confidential meetings with Internal and External Audit

The Committee met with Internal Audit and subsequently with External Audit for a private discussion. As part of those discussions, the Chair sought the views of Internal and External Audit on the merits of them continuing to have access to all members in private session before each meeting and it was concluded that these meetings will continue.

Other attendees were then invited to join the meeting.

2. Declaration of Conflicts of Interest

There were no issues declared by the Committee members or attendees.

3. Minutes of Meeting held on 23 November 2017

The Committee approved the minutes of the meeting, subject to one minor amendment at Section 6. Finance. Progress in relation to each of the matters arising was discussed. Members noted that some information had been provided in response to P Cumiskey's query from 23 November 2017 in relation to variances in income received by NIAO. However, that additional clarification had not fully resolved the query; and consequently the action remained outstanding.

The running order of the meeting was changed by the Chair and agenda item 6 – Risk Management was brought forward to agenda item 4. It was agreed that for all future meetings Risk Management would be the first item of substantive business.

4. Risk Management

Assurance Statement

C Kane presented a paper setting out how corporate risk had been managed during 1 April 2017 to 31 January 2018. She explained changes to the Office's assessment of risk and provided assurance to the Committee that the SMT had satisfied itself that risk was being managed effectively. The Committee noted that the OMT (comprising SMT and Directorate) sign-off demonstrates collective responsibility for the Office's risk management arrangements and that, although C Kane takes the lead in presenting this work to the Committee, it will be

important for other directors to be available when necessary. The Committee asked to be provided in future with the extract from SMT minutes endorsing the CRR.

The Committee probed the reasons for particular monitoring of Workforce Planning (incorporating contract management). P McCreedy informed members that the Office was currently revisiting its strategy for contracting out financial audit work and that it would be procuring additional support to undertake a fundamental review of the framework agreement for the engagement of contracted staff. Following the conclusion of this activity, towards the latter part of 2018, the Office should have a number of options to consider for resourcing future audit cycles.

Corporate Risk Register (CRR)

C Kane briefed the Committee on the CRR. She outlined that this was an interim Risk Register and that it would require revision when the Corporate Plan is finalised. She highlighted the main changes to the CRR since it was last presented to the Committee; in particular that risk 1A (reputational damage through poor external product delivery) had been escalated to amber. This escalation recognises the risk to NIAO's ability to deliver its core products in the absence of NI Assembly and PAC. Other changes included assigning risk owners and updating action plans.

Members queried the use of operational risk registers underneath the CRR. C Kane advised that NIAO's Risk Management Strategy is based on having one CRR, following the recent review of risk management that had recommended rationalising the Office's risk registers into one CRR. However, she noted that there is always an option to have a risk register for specific projects, such as that on accommodation, where appropriate. Management also confirmed that risk was routinely assessed as part of planning individual audits.

C Kane briefed members that the Corporate Risk Management Group intended considering fraud risk, cyber risk and horizon scanning in their March meeting. The Committee welcomed this activity.

The Committee was also assured that the CRR would shortly be communicated to all staff as part of the introduction of the new Corporate Plan.

ARAC confirmed that at the next meeting it would take one risk for an in-depth examination to assess how the risk management arrangements were operating in practice.

Risk Management Strategy

C Kane presented the revised Strategy, explaining that changes were necessary to reflect the new senior structure. She confirmed that the strategy had been endorsed by SMT. Members noted that all references to 'Audit Committee' needed to be updated to ARAC. Members identified a number of further revisions to the Strategy which Management agreed to incorporate.

5. Internal Audit

Internal Audit Reports

S Connors briefed the Committee on the two latest Internal Audit reports on Information Governance and the IT Health Check, noting the Satisfactory assurance levels on both. S

Connors advised that there were a number of recommendations which had been accepted by management which were being followed up.

He summarised the main findings of the reports. The IT Health check highlighted that policies and procedures had aged and that these should be up-dated to reflect NIAO's current operating model.

Members sought and obtained confirmation that a year-end assurance on IT Assist would also be provided.

The Information Governance Audit highlighted the need to develop an information asset register. Members were informed that this would be addressed as part of NIAO's overall GDPR preparations. Members requested a paper on GDPR preparations for the next meeting.

The Committee queried the extent to which the IT Health Check audit had tested controls over the misuse of IT equipment, which was an issue the Committee had raised previously in discussing the scope of that audit. S Connors confirmed that the audit had confirmed that appropriate policies are in place as well as monitoring of all account activity.

He explained the Haines Watts approach of exception reporting, designed to enable the reader to more readily focus on the main messages and recommendations for those areas in need of improvement. The Committee noted that whilst the approach did mean the reports were tightly focused, they did not necessarily help the Committee in understanding the extent to which the internal control environment had been tested during the internal audit. S Connors agreed that future Internal Audit reports would more clearly demonstrate the extent of testing undertaken and provide a corresponding RAG status to support the Committee's understanding of the reliance that could be placed on key controls.

Follow up Report Feb 2018

Internal Audit reported that all but one recommendation on resourcing had been implemented.

Internal Audit Strategy

S Connors presented a draft Strategy to the Committee for comment. A final strategy will be presented at the next ARAC meeting. The Committee discussed the timing of planned audit work and agreed the proposals to defer the internal audit of HR; and to bring forward to 2018-19 audits of the Consolidated Fund and of Performance Management. Members also agreed that the planned audit of the Business Continuity Plan (BCP) review be deferred to a later year, when the BCP has been up-dated. Members agreed a revised plan for 2018-19 of five internal audit reviews plus routine follow-up work.

Progress Against Audit Recommendations

ARAC was up-dated on NIAO progress on the implementation of Internal Audit recommendations. R Allen advised the Committee that the one outstanding item from 2014 had been overtaken by Recommendation 8 from the recent IT Health Check and could now be closed. The Committee agreed and suggested that the 2014 open recommendation be recorded as "superseded".

ARAC requested that Management provide a schedule for the next meeting to show progress in implementing all internal audit recommendations. It also requested that this list be broadened to routinely incorporate external audit recommendations.

6. External Audit Plan

B McFetridge outlined the External Audit Plan. He informed the meeting that a timetable for the audit of the Office's financial statements had been agreed with the Office and a further update will be provided to ARAC at the meeting scheduled for 17 May 2018. Members also requested that the following information should be provided for this meeting:

- the outcome of the internal Technical Review of the accounts; and
- the Accounting Policies for the Committee to review and endorse.

The Chair requested that the minutes record that the C&AG will be invited to attend the meeting on 19 June 2018. Before this meeting clarity will be sought from the ARAC handbook to ascertain if the Committee are required formally to recommend the accounts to the C&AG.

7. Finance

R Allen provided an update on the current financial position. He drew to members' attention the projected year end underspend and confirmed that the NIAO budget for 2018-19 would not be reduced but will be maintained at current levels in cash terms. Members noted the position in relation to the year-end underspend and the context for this, and welcomed that the spend pattern has been set out for 2018-19, and will be tightly managed to ensure best use of resource.

ARAC was advised that a bid had been made to the Transformation Fund for further VES funding in 2018-19.

R Allen outlined that that a new generation of the Office's time recording system was being purchased which will enhance NIAO's ability to produce management information. The Committee probed the extent to which the Office had considered the feasibility of using the time recording functionality on its system MKI. R Allen confirmed that MKI had been considered but Management had concluded that the functionality available did not meet the Office's business needs and consequently would be a more risky approach.

ARAC was informed that NIAO is considering the options for letting office space as part of the overall accommodation review.

P McCreedy advised the Committee that NIAO has been successful with its application to the Small Business Research Initiative (SBRI). NIAO submitted a business case which has been approved and the Office will receive support in relation to its Data Analytics programme.

8. Review of ARAC Terms of Reference – Benchmarking Exercise

Members discussed the paper presented on the benchmarking of the NIAO ARAC Terms of Reference with those for the National Audit Office, Audit Scotland; and Wales Audit Office. The Committee agreed the recommendations in the paper for inclusion in the NIAO ARAC Terms of Reference and Forward Work Programme. Members also noted some issues arising from the training received that morning, which also needed to be reflected in the Terms of Reference and Work Programme.

9. ARAC Terms of Reference and Forward Work Programme

ARAC Terms of Reference

The Chair advised that members' comments on the draft terms of reference be emailed to N Connelly, who will up-date the document and liaise with the Chair for sign off.

Forward Work Programme

Members decided that:

- ARAC will continue to hold pre meetings in private with members only and then with each of Internal and External Audit; to be added to the agenda as a standing item;
- the Corporate Risk Register will remain as a standing agenda item for each meeting; and
- GDPR to be discussed at the next meeting.

10. A.O.B.

Training

On behalf of members, the Chair expressed thanks to management for organising the ARAC training received that morning.

Assurance Mapping Framework

The Chair to take forward with N Connelly in the first instance.

Next Meeting

Next meeting scheduled for Thursday 17 May 2018 @ 10am