

NIAO AUDIT COMMITTEE MEETING
Wednesday 20th April 2016 at 10.00 am
Conference Room, NIAO

1. Meeting of committee members only
2. Confidential Meetings with Internal and External Audit (10:00 am)
3. Declaration of Conflicts of Interest
4. Minutes of meeting of 15th February 2016 and matters arising from minutes (Paper 1)
5. External Audit Strategy (Paper 2)
6. Internal Audit
 - Internal audit reports
 - IA Follow Up Review 2016 (Paper 3)
 - O/S Internal Audit Recommendations (Paper 3.1)
 - Review of Business Continuity Management (Paper 4)
 - Review of Risk Management (Paper 5)
 - Review of Information Reporting Arrangements (Paper 6)
 - Internal Audit Draft Assurance Statement (Paper 7)
7. Finance
 - Financial Management Report (Paper 8)
8. Risk Management
 - Corporate Risk Register (Paper 9)
 - Risk Trend Summary (Paper 9.1)
 - Operational Risk Register (Paper 10)
 - Operational Assurance Statement (Paper 11)
 - Cluster 4 Assurance Statement (Paper 12)
9. Review of Internal Whistleblowing Activity (Paper 13)
10. End of Year Evaluations
 - Internal Audit Evaluation (Paper 14)
 - External Audit Evaluation (Paper 15)
 - Audit Committee Self Evaluation (Paper 16)
 - Renewal of Internal Audit Contract - Terms of Reference (Paper 17)
11. Stakeholder Engagement (Paper 18)

AOB

MINUTES OF AUDIT COMMITTEE MEETING HELD 20th April 2016

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

In Attendance Kieran Donnelly (C&AG)
Janet Sides (NIAO Principal Finance Officer)
Andrew Allen (NIAO Finance Manager)
Bernard Barron (Mazars – Internal Audit) – (present until item 11)
John Davin (Baker Tilly Mooney Moore (BTMM) – External Audit) –
until item 11)
Joe Campbell (Secretary)
Brandon McMaster (Director of Corporate Services) (item 9 only)

1. Meeting of Committee Members Only

A meeting of Committee members only took place.

2. Confidential Meetings with Internal and External Audit

The Committee met with Internal Audit and External Audit. Other attendees were then invited to join the meeting.

3. Declaration of Conflicts of Interest

There were no issues declared by the Committee members.

4. Minutes of Meeting held 15th February 2016 and Matters Arising

The minutes of the meeting held on 15th February 2016 were approved, subject to minor amendment. In relation to matters arising: it was agreed that there should be further liaison in setting up the Chair's visit to the Wales Audit Office Audit and Risk Committee in June 2016; and it was confirmed that the Office's Technical Unit would be conducting a review of the draft annual report and accounts. It was also noted that circulation of NIAO reports would be extended to local members of the House of Lords, pending further consideration of additional engagement opportunities.

5. External Audit Strategy

J Davin provided a short presentation to the Committee on the paper. He set out the strategy for the external audit of the 2015-16 NIAO Annual Report and Accounts, including how it will address risk of material misstatement to transactions and balances (materiality to be set when draft figures provided). He also identified, what he considered to be, the key risks in the audit and how they would be addressed. He confirmed that Internal Audit reports directly impacting on the accounts would be considered, as well as the

consistency between the Annual Report and the Accounts.

Members sought clarity on the review of financial impacts as well as the potential situations where a value for money review may be recommended. J Sides informed the members that such a review may be identified in agreement with the NI Assembly Audit Committee. In terms of the timeline for the annual audit, Mr Davin informed the meeting that he considered it to be achievable if the accounts are issued in line with the agreed timetable. He confirmed the independence of the External Auditor and advised that this will be reconfirmed in the audit report.

6. Internal Audit

B Barron provided the meeting with a presentation on the work of internal audit undertaken during 2016. He confirmed that the programme had been completed, subject to a follow up review on staff performance management and submission of the final internal audit assurance statement. He outlined his findings from the 2016 follow up review, and provided a summary on those internal audit recommendations that remained outstanding. Clarity was sought and provided on a number of the Office's responses.

Members discussed the findings of the performance management review and sought further information on how the follow up review would be completed. The original review had been conducted on a previous system which had since been modified in mid 2015 and then replaced by a new performance management system in January 2016, involving 6-7 meetings per annum. It was noted that compliance and meaningful conversations would be key to the success of the new system. It was agreed that internal audit would liaise with J Sides on the format of the follow up review which would have a clear focus on the content and implementation of the new system as well as compliance, as far as can be reasonably tested by June. Management will provide a report to facilitate Internal Audit's follow-up.

The Committee also proposed that a survey of staff should be conducted by December 2016 to confirm that the outworkings of the new system are addressing concerns raised previously, as an alternative to the quarterly pulse survey.

In considering the report on the review of business continuity management, the members discussed the outstanding recommendation relating to the testing of the BCP. The Committee advised that it would expect NIAO to demonstrate the standard of testing that it would look for itself from organisations that it audits. While best practice would be a full test of the BCP, it can be acceptable to test components at different times as long as evidence substantiates limited residual risk. It was agreed that the Office would set out a structured schedule which would inform the Committee as to how and when the plan will be tested over the following 12 months.

The Committee noted the findings of the review on risk management, and clarified with Internal Audit that it focused on compliance with policy rather than a qualitative assessment of the consideration of risk. Moving on to the report on information reporting, Internal Audit recommended that a summary of the movement on open/closed audit points be considered at each meeting together with a detailed update on priority 1 and 2 audit points only. Members accepted this recommendation, with the adequacy of

assurance to be kept under review. Members noted the recommendation on consideration of Divisional Assurance Statements which it has reviewed recently and again will keep under review for adequacy of assurance.

The level of Internal Audit Assurance is currently assessed as satisfactory, compared with substantial at June 2015. B Barron advised that assurance in the annual internal audit statement will take account of the findings from the forthcoming follow up review on performance management, and the assessment will be finalised in June.

7. Finance Report

A Allen made a short presentation to the Committee which confirmed that the Office was projecting that the £450,000 (or 5%) under-spend advised at the February Audit Committee meeting was unlikely to decrease, and may actually increase when the final out-turn is calculated, mainly due to the out-workings of the Voluntary Exit Scheme. He also provided clarity to the Committee on the introduction of a second Voluntary Exit Scheme in the current year. He also updated members on the 2016-17 budget and that the Assembly Audit Committee advised its agreement of the NIAO Estimate on 15 March 2016. Two minor points regarding the dates noted at item 4 were noted.

8. Risk Management

Having considered the papers submitted to the Committee, members concluded that there was a need for further clarity as to how the Office had assessed each of its risks (e.g. why a risk has been considered to be high or medium) and how risks were changing over time, along with whether actions and controls were considered to be satisfactory and how assurance is received internally. They considered that the mitigating controls listed on the Register understated the controls or actions that were in place. They also believed that there could be a potential disconnect between the corporate and operational risk registers which needed to be addressed.

In response, Management agreed to consider these points and to supplement its submission to the Committee to demonstrate better the dynamic nature of the management of risk, by incorporating information on key issues for the Office between Audit Committee meetings and how these impact on corporate risk.

The Operational Risk Register and cluster assurance statements were noted by the Committee.

9. Internal Whistleblowing Procedures

The Committee was provided with a briefing on both of the cases which had arisen during 2015-16.

10. Stakeholder Engagement

C&AG briefed members on the various stakeholder engagement activities conducted since the previous meeting, including the development of a stakeholder engagement strategy for dealing with auditees and the completion of an MLA survey. Members requested

submission of both papers for their information. They were also informed that the Office was developing a new training programme for MLAs post-election, and the preparation of departmental guides covering the nine new departments for each of the statutory committees.

On the issue of engagement with members of the House of Commons and the House of Lords, G Body informed the meeting that the Wales Audit Office had participated in an event hosted by one of the Welsh members of the House of Lords, to brief members on their role. She informed the meeting that this had been a useful engagement in raising awareness of the audit function and the work of the Wales Audit Office. C&AG agreed that the stakeholder engagement group should further consider this as part of its development.

11. End of Year Evaluations

Members agreed that, having received and reviewed a proposed framework for the annual evaluation of internal audit and external audit, the Secretary should investigate what evaluations were available for assessing the external audit function. It was also agreed that all returns should be made to the Secretary by 31 May who would collate the results into a report for consideration by the Committee at its next meeting.

1.15pm - G Body left the meeting.

Members were briefed by J Sides on draft tender documentation for the provision of internal audit services.

It was agreed that one of the NEMs would sit on the assessment panel.

12. AOB

The C&AG informed members that the Office was moving its graduate trainee scheme from CIPFA to ICAI. He outlined the reasons for this decision, but assured the meeting that he would continue to work closely with CIPFA on an ongoing basis.

The meeting was brought to a close.

The next meeting will be held on **Tuesday 21st June** in the NIAO Conference Room, starting at **9:30am**.

