

NIAO AUDIT COMMITTEE MEETING

Tuesday 21st June 2016 at 08:45

Conference Room, NIAO

- 1. Meeting of committee members only (08:45)**
- 2. Confidential Meetings with Internal and External Audit (09:30)**
- 3. Declaration of Conflicts of Interest**
- 4. Minutes of meeting of 20th April 2016 and matters arising from minutes**
- 5. Risk Management**
 - 5.1 Annual Review of Corporate Risk**
 - 5.2 Corporate Risk Register**
 - 5.3 Issues Log**
- 6. Assurance Statements and Annual Reports**
 - 6.1 Cluster 4 Assurance Statement**
 - 6.2 Audit Clusters Annual Assurance Statements**
 - 6.3 Outsourced provision**
 - 6.4 Annual Statement re fraud, whistleblowing and complaints**
 - 6.5 Health and Safety Assurance Statement**
 - 6.6 Transparency Report 2015-16**
- 7 Internal Audit**
 - 7.1 IA update on review of performance management**
 - 7.2 NIAO Progress Report in implementation of IA recommendations**
 - 7.3 Internal Audit Final Assurance Statement**
- 8 External Audit**
 - 8.1 External Audit Report on Accounts (inc draft letter of representation)**
 - 8.2 External Audit Report on financial impacts**
- 9 Finance**
 - 9.1 Annual Report and Accounts and Governance Statement**
 - 9.2 Financial Management Report**
- 10 End of Year Evaluations**
 - 10.1 Internal Audit Evaluation**
 - 10.2 External Audit Evaluation**
 - 10.3 Audit Committee Self Evaluation**
- 11 Senior Management/Non-Executives Expenses**

12 Audit Committee Annual Report

13 NI Assembly Audit Committee Review of MoU

14 Stakeholder Engagement

AOB

- **HR Activity Report 2015-16**

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MINUTES OF AUDIT COMMITTEE MEETING HELD TUESDAY 21st JUNE 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 10)
John Davin (Baker Tilly Mooney Moore (BTMM) – External Audit) –
(present until item 10)
Anne Fitzpatrick (Baker Tilly Mooney Moore (BTMM) – External Audit)
– (present until item 10)
Joe Campbell (Secretary)

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 or attendees.

4. Minutes of Meeting held 20th April 2016 and Matters Arising

The minutes of the meeting held on 20th April 2016 were approved, subject to minor amendment.

5. Risk Management

Annual Review of Corporate Risk –Members were briefed on the paper setting out the conclusions and outcomes of the Executive Team’s annual review of the management of corporate risk. The Executive Team had concluded that it was satisfied that risk has been adequately managed in 2015-16. The Office would continue to ensure that arrangements comply with best practice and its approach is proportionate and appropriately tailored to the needs of the business.

In discussing the review alongside the updated corporate risk register, members sought assurance that consideration had been given to the changing environment (eg NI Assembly election) and whether sufficient information was reflected around mitigating controls and actions to be taken. Issues were also raised around specific risks, the impact that one risk can have upon another, risk ownership and the need for the register to

recognise, highlight and identify how approaching risks can be / are being managed. The issues log was noted.

Management responded to the points raised by the Committee and agreed to reflect on these, and adjust the register as necessary. Over the summer, it was proposed and agreed that members and the Executive Team, should hold a workshop on the risk management process.

6. Annual Assurance Statements and Annual Reports

Cluster C (Corporate Support) Assurance Statement – J Sides advised the Committee that she was content that risk had been managed during the period 1 April 2015 to 10 June 2016, that the key risks were subject to regular review and key controls were operating effectively. Members discussed, in some detail, the risks around resourcing and budget overspend/underspend, and were assured that the undulating budgeting pressures were sufficiently reflected in the status of the risk throughout the reporting period.

Audit Clusters Assurance Statement – The Committee noted the positive assurance in the Statement. It questioned why the reduction in the delivery of public reports in 2015-16 had not gained higher prominence in both the operational and corporate risk registers to show the changing nature of the risk during the year. The C&AG explained that, while the internal target for reports had not been achieved, having been impacted by a combination of factors, sufficient reports had been delivered to meet the needs of the Public Accounts Committee. C&AG informed members that an initiative had already commenced to ensure that public reporting would meet its targets for 2016-17.

It was agreed, moving forward, that it would be beneficial for one of the AAGs responsible for the audit functions to attend the Audit Committee meetings when their risk register or assurance statements were included in the agenda.

Outsourced provision – Members were informed that, taking account of, contracts/agreements, risk management arrangements, governance and resources and independent reviews, the Office was satisfied that it had adequate arrangements and controls in place in 2015-16 to oversee and manage the outsourced provision of its IT services. Members welcomed that the Office will be refreshing its IT strategy, led by the AAGS.

Annual Statement re fraud, whistleblowing and complaints – J Sides provided a short briefing on the paper, highlighting that the Office has brought within the remit of the new NI Public Services Ombudsman with effect from 1 April 2016. Members were also informed that the Office is in the process of updating its anti-fraud policy and fraud response plan. It was agreed that these documents should be issued to members for input prior to formal publication. It was noted that there were no reported incidents of actual or suspected fraud in 2015-16. The work performed on Whistleblowing guidance in-year and activity during the year was noted.

Health and Safety Assurance Statement – J Sides briefed the meeting on the paper, which concluded that the Office was satisfied with the arrangements and controls to oversee

and manage the H&S requirements. Members noted the appointment of a new HR Manager and a NIPSA Health and Safety Representative to the H&S Committee. It was clarified that the Premises Officer also acts as the H&S Officer.

In addressing the issue of stress, members were informed that this issue is taken seriously and each case is dealt with promptly; detailed data on sickness absence is provided to the Executive Team on a quarterly basis to monitor such issues. Risk management, use of surveys and assessments were discussed.

The conversation turned to the review of the top structure of the Office. The C&AG informed the meeting that the Office would appoint a consultant in accordance with the Office's procurement procedures to undertake this exercise. The terms of reference for the assignment were almost complete and he would issue a copy to members for their information. It was confirmed that staff were aware of the forthcoming review.

Transparency Report 2015-16 – J Sides briefed the members on the report which provided information on the structure and governance of NIAO, and quality control. At the outset, she recognised that the report could have been enhanced by better infographics and that in 2016-17 the Office would be addressing this issue in respect of all its products.

The key focus of the members was around the cold review of a contracted out financial audit which highlighted that, when the C&AG had signed the account, the audit opinion was not appropriately supported. It was recognised that the C&AG had been, potentially, exposed. Members were informed that subsequently the firm undertook additional audit procedures to provide the necessary assurance to support an unqualified opinion. This was the first time this had happened and going forward the Office will work closely with the firm to ensure the quality of its work is to the professional standard required and that any further action is taken as appropriate. The contracting-out strategy has also been reviewed.

In further considering the report, members sought clarity on the issue of conflict of interest. They were informed that all staff were required to complete an annual return identifying any potential conflicts of interest and that the Office also conducted rotation of audits in keeping with best practice. The Office is not overly restricted by conflicts and is able to manage this. Members welcomed the assurance given in this regard.

7. Internal Audit

Internal Audit Report on Performance Management and Related Staff Training – B Barron informed members that, following on from the April 2016 Audit Committee meeting, internal audit (IA) had conducted a high level review of the performance management system that had been introduced in January 2016. As part of this exercise, they reviewed each of the issues which had been highlighted in their review of the previous performance management system, to confirm that each of the original concerns had been addressed. From the testing that they were able to conduct, they found that the system should mitigate those significant deficiencies noted in the former system. However, he informed the meeting that he was unable to provide an assurance statement

on the system as he had not conducted a full year review. He therefore proposed, as part of the 2016-17 IA plan, that a full review should be carried out on the new performance system after it has conducted one full year cycle. This was endorsed by the Committee who also noted the importance of a review of the quality of performance management conversations as well as compliance.

Internal Audit Outstanding Recommendations – Members welcomed the progress that had been made in relation to addressing outstanding recommendations made by internal audit, and noted the priority level, duration and status of those not yet implemented along with plans to address these. Following on from the April 2016 meeting, the Office set out enhanced arrangements for testing its Business Continuity Plan in 2016-17. The Committee recognised that it had moved some way in addressing the concerns raised by Internal Audit and Members and awaited the outcome of this exercise.

Internal Audit Statement of Assurance – B Barron delivered a presentation to the Committee. This set out how he had increased the “satisfactory” assurance he had provided to the Committee in April to the “substantial” assurance provided in his final paper. He identified significant improvement in the new performance management system, together with the ongoing improvements in addressing outstanding recommendations as the key factors in this assessment.

The Chair welcomed this outcome and suggested that, given the nature of the organisation, it should be seen as exemplar in all of its operations. Therefore, “substantial” should be the target it should be seeking to attain in each of its audit reviews at the outset rather than post follow-up work. In response, the C&AG accepted this principle and informed the Committee that in order to achieve such results, he had already been promoting compliance in all aspects of Office operations through both Executive Team and Directors’ Brief.

Following completion of discussions, the Chair thanked IA for the services provided throughout the reporting cycle.

8. External Audit

NIAO Audit Findings Report - J Davin (BTMM) presented the key findings in the report for the year ended 31 March 2016. He confirmed that each of the issues highlighted in the audit plan had been addressed and, following completion of fieldwork, he was able to conclude that there was no material misstatement and no modifications were anticipated. Furthermore, he confirmed that the governance statement had been reviewed and found to be in line with FREM and in his review of regularity no modifications were required. As a result, he confirmed that the audit had been conducted in keeping with the agreed timetable. He informed members that he would be issuing the draft letter of representation to the C&AG to sign as part of the accounts. He confirmed independence for all involved in the audit team and also that no issues had arisen post year end that would affect the accounts. He extended his thanks to A Allen and K Cassidy.

Following J Davin’s presentation, Anne Fitzpatrick (BTMM) confirmed to the Committee that her conclusion on regularity was that expenditure was as intended and properly

presented the activities conducted by the Office, expenditure and income was as intended, the financial statements presented a true and fair view and were prepared in keeping with the Audit (NI) Order and DFP guidance, and the statement on remuneration was properly prepared. She had no exceptions to report.

Following the presentation, the Chair thanked external audit for the services provided and congratulated J Sides, A Allen and the team involved in the preparation of the accounts.

Financial Impacts Report – J Davin reported BTMM’s findings from its review of quantified financial impacts for the year ended 31 March 2016. He advised that the Office’s process had been conducted in keeping with the guidelines of its policy. Each impact was quantified, independently confirmed and quality assured. As a result of the Office determination not to pursue impacts estimated at less than £500,000, BTMM was able to test 100 per cent of the sample. The conclusion of the review was that the figures quoted for impacts achieved were accurate, consistent and robust.

The Chair, noting that the impact had reduced significantly since 2014-15, was informed that this could largely be explained as a result of a one-off £15 million impact claimed in 2014-15. The impact ratio was lower than the Office would have liked, and was the lowest since 2000. It was also noted that the financial impacts may materialise over a number of years and the impacts realised this year therefore may relate to studies performed in previous years. While there is no formal target, the risk of a potential further decrease due to fewer studies being performed was also noted. The C&AG informed members that in order to secure financial impacts all study designs would be required to be more definitive in the identification of financial impacts and how they will be measured. The members welcomed this development.

Following completion of discussions, the Chair thanked External Audit for the services provided throughout the reporting cycle.

9. Finance

Annual Report and Accounts 2015-16 – Having had the opportunity to consider the annual report and accounts in some depth pre-meeting and provide their feedback to A Allen, a high level discussion took place which focused mainly on presentation. Management advised that it had considered all proposals provided by members and had taken the majority on board. There were a small number of issues where the order and detail differed from FReM. However, in these cases, members were informed that FReM was taken as guidance rather than prescriptive.

Taking everything into consideration, including the tight timeframe to certify and lay the accounts, all were in agreement that, subject to a small number of adjustments to enhance presentation and clarity (as agreed during discussion), the annual report and accounts should be regarded as finalised apart from completion of the external auditor’s report.

Finance Report – Following a presentation by A Allen the report was noted.

11. Senior Officer and Non-Executive members' expenses

The paper was considered and noted. Members were informed that the expenses details would be placed on the website. Following this consideration, internal audit and external audit left the meeting.

10. End of Year Evaluations

Internal Audit and External Audit Evaluations - The internal audit and external audit evaluations were considered together. Concerns were expressed in relation to the relevance of the documents to the NIAO governance structure and members commented that there were a number of question which they were unable to fully address. It was therefore agreed that new forms would be sourced or developed for 2016-17. It was further agreed that a letter would be issued to Internal Audit and External Audit setting out the key findings.

Audit Committee Self Evaluation – Members were informed that the self-evaluation had been conducted in accordance the Terms of Reference of the NIAO Audit Committee. The process, which was facilitated by the Committee secretariat, addressed the issues of good practice, the role of the Chair and Committee support. Following consideration of the report and amendment of the term NEDs to NEMs, it was approved by the members.

12. Audit Committee Annual Report

The report, which outlined the activities of the committee for the year ended March 31st 2016 and the steps taken to obtain the necessary assurance around the subsequent year-end process, annual report and governance statement, was presented by the Chair to the Committee. Following discussion, it was agreed that the paper would be updated in four areas by the Chair, who would circulate the amendments to members and, following agreement, forward the final report to the C&AG.

13. Draft MoU on the Governance and Accountability Arrangements of the NIAO

The paper was noted by the Committee.

14. Stakeholder Engagement

Following consideration, the paper was noted and referred to the Advisory Group who were considering stakeholder engagement in their meeting directly following Audit Committee.

1.25pm - G Body left the meeting.

15. AOB

J Sides spoke briefly to the HR Annual Report 2015-16, which provided a summary of the HR activities that have taken place in 2015-16. The paper was noted.

It was agreed that the Secretary would draft a paper on the visit to the Wales Audit Office; and that the Office should conduct a review of its corporate risk register to ensure the sufficiency of its logging of mitigating controls across the whole organization.

The meeting was brought to a close.

The next meeting will be held on **Thursday 15th September** in the NIAO Conference Room, starting at **9:30am**.

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