

**DRAFT MINUTES OF DEPARTMENTAL AUDIT COMMITTEE  
HELD ON 19 OCTOBER 2011**

**PRESENT:** David Beck (Chairman)  
Bill McGinnis (Audit Committee Member)  
Noel Cornick (Audit Committee Member)

**IN ATTENDANCE:** David Sterling (DETI)  
Colin Lewis (DETI)  
Trevor Cooper (DETI)  
Iain McFarlane (DETI)  
Terry Coyne (DETI)  
Elaine Dolan (DETI)  
Anne McCandless (DETI)  
Mark Cardwell (DET)  
Gerry McGinn (Invest NI Audit Committee Chair)  
Mel Chittock (Invest NI)  
Thompson Keating (NITB Audit Committee Member)  
Stephanie Lowry (HSENI Audit Committee Chair)  
Bob McCann (GCCNI Audit Committee Chair)  
Colette Kane (NIAO)  
Neil Gray (NIAO)

**MINUTE TAKER:** Carol Donnelly (DETI)

**PRELIMINARY**

1. The Chairman welcomed attendees to the Departmental Audit Committee. The Chairman informed the Committee that Donal Flanagan (Audit Committee Member) would, for personal reasons, be temporarily standing down from the DETI Departmental Board and the Departmental Audit Committee.

**POTENTIAL CONFLICTS OF INTEREST**

2. The Chairman asked those present to declare any issues which might give rise to a real or perceived conflict of interest over and above those previously declared.
3. Audit Committee members stated that there were no changes in the interests that had previously been declared.
4. None of the other attendees declared a potential conflict of interest.

**APPROVAL OF MINUTES OF THE PREVIOUS MEETING ON 27 JUNE 2011**

5. The minutes of the 27 June 2011 meeting were approved and adopted.

**MATTERS RAISED BY DEPARTMENTAL AUDIT COMMITTEE AT ITS PREVIOUS MEETINGS**

6. The Schedule of Action Points arising from previous meetings of the Departmental Audit Committee was reviewed.
7. Schedule Item 1 – Colin Lewis briefed the Committee on the events leading up to the provision of financial assistance to the Presbyterian Mutual Society. He informed the Committee that a project manager would shortly be appointed to oversee the orderly wind down of the Society and that risk mitigation measures had been put in place including arrangements for the joint supervisors of the arrangement with creditors to provide regular reports to the Department and for quarterly oversight meetings to take place. The first quarterly meeting is scheduled for Friday, 21 October. A corporate risk relating to the repayment of the financial assistance has been included in the Department's Risk Register and regular updates on progress will be given to the DAC.
8. Schedule item 3 – Iain McFarlane reported that four out of five recommendations contained in the 2010/11 Test Drilling report have been implemented and that the final recommendation is being implemented.
9. Schedule item 4 - Terry Coyne informed the Committee that two briefing sessions had been held to outline the revised approach to risk management. These were attended by 21 staff. A further session is to be held at the start of November and more can be held if there is sufficient demand.
10. Mel Chittock provided the Committee with an overview of the revised approach to Risk Management being taken by Invest NI. Mel reported that risks were being allocated to four main categories and that risk appetites for each category would be considered by the Invest NI Board in November.
11. Bill McGinnis asked the Invest NI representatives if risks relating to the new Loan Fund were being identified and managed. Gerry McGinn assured the Committee that risks relating to this area were being actively managed.
12. David Sterling confirmed that he had recently met the European Commissions Deputy Director for Regional Policy and had raised the Titanic Signature Project during this meeting. The Deputy Director had given very positive soundings in regard to the project. A further meeting in relation to the procurement process for the project is scheduled for November.

13. Schedule Item 5 – David Beck informed the Committee that a number of meetings had been held in relation to the review of Audit Committee Effectiveness and that a paper would be presented at the 22 November Departmental Board meeting with an update being given at the next DAC meeting thereafter.
14. Bill McGinnis enquired if similar exercises had been undertaken in relation to NDPB Audit Committees. Gerry McGinn and Thomson Keating confirmed that similar exercises had been carried out in Invest NI and NITB respectively. HSENI and GCCNI are to undertake similar exercises within their organisations.
15. Schedule Item 9 – Mel Chittock reported that in light of Invest NI's decision not to make further use of Enterprise NI for the "Start a Business Programme" and the subsequent legal dispute between the parties, a follow-up External Delivery Organisation review will not be undertaken.
16. Schedule Item 12 – Mel Chittock informed the Committee that Invest NI was taking action to finalise the Technology and Strategy Board EDO Sponsor Control Report.
17. Schedule Item 13 – Iain McFarlane informed the Committee that following a meeting on 5 October, involving InterTradeIreland and its ROI Sponsor Department, it was agreed that cash balances would be reduced with a view to resolution of this matter by the end of December 2011.
18. Schedule Item 15 – David Sterling provided the Committee with an overview of the new structures within the Department. Departmental restructuring aimed to respond to three broad imperatives – the need for enhanced policy development, increasing demands/pressures across the Department and cuts in resources available. Restructuring would result in a reduction in the number of Grade 5's from seven to six, and the establishment of improved linkages between the Department and its NDPB's. Further update reports will be provided to the Committee in due course.
19. Schedule item 16 – Mel Chittock informed the meeting that lessons learnt through testing of contingency plans would be conveyed to staff. A further Contingency Plan testing exercise is scheduled to take place in six to nine months time.

**Action (1): Colin Lewis to provide an update on the Presbyterian Mutual Society at the next meeting of DAC.**

**Action (2): David Beck to provide an update on the review of Audit Committee Effectiveness at the next meeting of DAC.**

**Action (3): HSENI and GCCNI to carry out similar reviews of the effectiveness of their audit committees.**

**Action (4): Mel Chittock to update the Committee on progress on the Technology and Strategy Board EDO Sponsor Control Report at the next meeting.**

**Action (5): David Sterling to provide the Committee with an update on Departmental re-structuring in due course.**

#### **NIAO REPORTS TO THOSE CHARGED WITH GOVERNANCE**

20. Colette Kane reported that the DETI 2010-11 Resource Accounts had received an unqualified audit opinion and had been laid before the Northern Ireland Assembly on 1 July 2011. Colette confirmed that the final Report To Those Charged With Governance had issued with no priority one findings being identified. Iain McFarlane confirmed that work was underway on the implementation of recommendations contained in the Report To Those Charged With Governance.
21. Colette confirmed that the Petroleum Production and Mineral Development Accounts for 2009-10 had been submitted to NIAO in November 2010 and that they had received an unqualified audit opinion. The associated Report To Those Charged With Governance contained one priority one issue.
22. Collette informed the Committee that Invest NI's Accounts for the year to 31 March 2011 had received an unqualified audit opinion. A number of points were included in the Report To Those Charged With Governance and these were discussed at Invest NI's Board Audit Committee on 28 September 2011. A discussion took place around the acceptance of hospitality at events. Mel Chittock agreed that it is preferable for officials to set out in detail their reasons for accepting hospitality, and Invest NI will review its policies to ensure that this is made clear.
23. In relation to NITB, Colette informed the Committee that NIAO's Audit of the Accounts is now complete and the C&AG will be providing an unqualified audit opinion. Colette went on to state that the Report To Those Charged With Governance had identified issues including salaries paid to NITB staff based in Dublin, cash balances, the payment of grants where multi funding agreements are in place and an uplift in NITB salaries to reflect higher pension costs as a result of NITB's employees being in the NILGOSC scheme. NITB is taking action to address the issues raised in consultation with others (including DFP) as necessary.
24. Colette confirmed that the final set of Accounts relating to the Giants Causeway Visitors Centre had received an unqualified audit opinion. The Report To Those Charged With Governance had identified two priority three issues.
25. Colette informed the Committee that the HSENI's accounts had received an unqualified audit opinion and that the Report To Those Charged With Governance had identified two priority two issues and one priority three issue. All recommendations have been accepted.

26. Colette informed the Committee that the Consumer Council's 2010-11 Accounts had been qualified as a result of irregular payments relating to staff salaries. The Report To Those Charged With Governance identified two key risks which have been addressed.
27. Colette informed the Committee that the InterTradeIreland's accounts for the year ended 31 December 2010 had resulted in an unqualified audit opinion and were signed off on 23 June 2011. The Report To Those Charged With Governance identified three priority two findings and two priority three findings. All recommendations were accepted.

**Action: Implementation of actions in Reports to Those Charged With Governance to be confirmed by way of verbal update at future DAC meetings.**

### **RISK MANAGEMENT REPORTS FOR THE QUARTER ENDED 30 JUNE 2011**

28. Terry Coyne updated the Committee on progress in the development of a more streamlined and integrated risk management process in DETI. Nine corporate risks have been suggested but these are being revisited in light of the draft DETI Corporate Plan. A paper will be presented to the November Departmental Board meeting.
29. Terry Coyne went on to outline the key issues identified in the risk management report for the end of June. He reported that four new corporate risks had been identified during the quarter. One related to the integration of a newly created unit into the wider Department; two related to reputational issues surrounding the Consumer Council's payroll and Directors' Disqualification proceedings; and one related to financial assistance provided to the Presbyterian Mutual Society. The Committee was informed that Energy Division risks relating to renewable energy continue to be assessed with a high impact and high likelihood. These stem from the expectation that NI should contribute to ambitious UK wide targets but the much smaller population base here mitigates against economies of scale.
30. Gerry McGinn reported that Invest NI's Corporate Risk Register for the quarter ended 30 June 2011 was discussed by the Top Management team on 31 August. Two new risks were created during the quarter relating to the implementation of the Short Term Employment Scheme and the misalignment of Invest NI and NI-CO.
31. Thompson Keating reported that several risks had been deleted from NITB's Risk Register for the quarter ended 30 June, and that other risks had been identified and amended to reflect the ongoing work of the Tourist Board.
32. Stephanie Lowry confirmed that there were no significant changes to HSENI's Risk Register during the quarter ended 30 June.

33. Bob McCann confirmed that there were no significant changes to the GCCNI's Risk Register during the quarter ended 30 June.

#### **IAS UPDATE REPORT TO AUDIT COMMITTEE ON PROGRESS v PLAN AND LIMITED OPINIONS**

34. Elaine Dolan informed the Committee that the audit programmes for DETI, Invest NI and NITB are behind schedule with a number of 2010/11 reports not yet finalised. A bid has been submitted for consultancy support to outsource a number of 2011/12 reviews. Progress will be closely monitored by IAS.
35. Elaine reported that the DETI recommendation register contains seventy seven IAS recommendations carried into the current reporting period. IAS testing has confirmed that 18 of the recommendations have been addressed or are no longer relevant, leaving a balance of 59 recommendations being carried forward. Of the 59 recommendations being carried forward, 53 relate to 2010/11 findings and have not yet been subject to IAS follow up testing. The register contains nine high risk recommendations, all of which relate to the 2010/11 review of GSNI/Minerals which has been issued in draft with a limited opinion. Progress on the implementation of outstanding recommendations will be reported to the next meeting of DAC.
36. Elaine informed the Committee that within DETI there is one limited opinion contained in a draft report on GSNI/Minerals and that a number of limited opinions have been issued in relation to Invest NI EDOs.
37. Noel Cornick confirmed that work was ongoing within GSNI/Minerals to address all issues raised within the draft IAS report, noting that at least half of all issues have been addressed. Noel went on to confirm that a new Service Level Agreement will be set up with the British Geological Survey, and that the DETI Business Improvement Team will undertake an inspection relating to the respective roles of the geologists and the administrative staff.

38. Mel Chittock confirmed that he will update DAC on the Bio Business EDO inspection report at the next meeting of the DAC. A discussion took place on the risks associated with the dependency of some EDOs on government contracts for their continued existence. It was agreed that these risks could magnify if increased use was made of EDOs to deliver public services. David Sterling stated that he would consider whether he would raise the matter with CPD.

**Action (1): Elaine Dolan to report on progress on the implementation of outstanding recommendations in the DETI recommendation register will be reported to the next meeting of DAC.**

**Action (2): David Sterling to consider whether he will write to Central Procurement Directorate.**

**Action (3): Mel Chittock to update the Committee on to the Bio Business EDO inspection at the next meeting of DAC.**

#### **IAS UPDATE ON IMPLEMENTATION OF ACTIONS IDENTIFIED IN INTERNAL QUALITY ASSESSMENT OF IAS**

39. Elaine Dolan reported that IAS are required to undertake periodic internal quality reviews. The review that took place in the summer of 2010 identified a number of findings and actions. These were reported to DAC in September 2010. Elaine provided the Committee with an update on progress and highlighted the development of Strategic Audit Plans, Terms of Reference (Charters) and Service Level Agreements.

40. Elaine went on to outline work currently being undertaken to develop a formal framework for placing reliance on the work of others. A meeting between IAS and NIAO has been scheduled to discuss formalising arrangements in relation to the relationship between internal and external audit.

**Action: Elaine Dolan to provide progress reports on the Internal Quality Review of Internal Audit on a periodic basis going forward.**

#### **IAS EXTERNAL QUALITY ASSESSMENT OF IAS**

41. Elaine Dolan informed the Committee that, following the completion of the Internal Quality Review of IAS, a review team from the Department of Finance and Personnel had undertaken an External Quality Assessment in June 2011. The DAC noted the paper and action plan and will continue to monitor progress against identified actions.

42. The Committee discussed the practicalities of External Quality Reviews in organisations where internal audit services are provided by the private sector. These assignments are typically of three years duration and at the end of the contract period, a new firm is frequently appointed through a tendering process. This lack of continuity mitigates against improvements being made to internal audit services. Stephanie Lowry raised a concern about firms, such as PwC, being subject to numerous

External Quality Reviews by different Government Departments. The Committee requested the Secretariat to raise the issue with DFP's Internal Audit Development Unit to confirm in particular whether there is any central guidance on this matter.

**Action: Secretariat to engage with to DFP in relation to approach to External Quality Reviews of internal audit services provided by the private sector and update the Committee at its next meeting.**

### **INTERNAL AUDIT SERVICE CHARTER**

43. Elaine Dolan confirmed that the purpose of the IAS Charter is to formally set out the terms of reference for internal audit arrangements within the Department, and to define the relationship between the Permanent Secretary and the Head of Internal Audit (HIA). The draft Charter has been updated to reflect current Government Internal Audit Standards. DAC noted and endorsed the Internal Audit Charter.

### **INTERNAL AUDIT STRATEGY**

44. Elaine Dolan confirmed that the draft Internal Audit Strategy has been prepared in line with Government Internal Audit Standards. Its preparation follows an extensive consultation process and aligns with draft key corporate risks and DETI objectives. The Strategy also covers relationships with other assurance providers, audit techniques, reporting, resources and the IAS assurance and improvement programme (including suggested Key Performance Indicators (KPIs)).

45. The Chairman enquired as to the sufficiency of Internal Audit resources. Trevor Cooper confirmed that resources would be made available as required and should be bid for through the normal departmental bidding process.

46. The DAC noted and endorsed the DETI Internal Audit Strategy 2011/12 – 2014/15 and revised audit plan for 2011/12. Internal Audit Service was thanked for the work undertaken in the development of the Strategy and noted the positive substantive changes that could flow from its implementation.

**Action (1) : Implementation of Strategy to be kept under periodic review by DAC**

**Action (2) : Elaine Dolan to provide paper on comparison of proposed IAS KPIs with other Internal Audit Branches.**

### **VALENCE TECHNOLOGY PAC ACTION PLAN**

47. Mel Chittock informed the Committee that the PAC Report on Valence Technology contained twenty recommendations the majority of which have been implemented. Four recommendations are currently in the process of implementation. Three of these are being implemented within the context of Invest NI's "Transform" business improvement

project. The feasibility of the remaining recommendation is being considered internally within DETI.

**Action: Mel Chittock to provide DAC with an update on progress at its next meeting.**

### **EUROPEAN SUSTAINABLE COMPETITIVENESS PROGRAMME 2007/13**

48. Mel Chittock reported that a number of issues had emerged from compliance checks relating to the eligibility of expenditure claimed by Invest NI under the EU Competitiveness Programme. A Project Board meets monthly to monitor progress on remedial action and overall oversight of this issue has been added to the remit the Invest NI Board.

49. The remedial work undertaken to date has resulted in the European Commission lifting its threat to suspend the programme. Eligible expenditure not previously claimed has been substituted for expenditure previously claimed which was identified as irregular. Mel Chittock confirmed that a review would be undertaken to ensure that lessons were learnt from the process.

**Action: Invest NI to ensure that lessons learnt from the operation of the Competitive Programme were identified and disseminated so that there would be no reoccurrence.**

### **NIAO REPORTS**

50. Collette Kane informed the Committee that the Report To Those Charged With Governance for Tourism Ireland Limited would be tabled at the next meeting of DAC.

51. Neil Gray informed the Committee that the report on Bioscience and Technology Institute is scheduled for publication on 29 November. The report on NITB Signature Projects is at second stage and will be published before Christmas and the report on Invest NI performance should be published early in 2012.

**Action: Secretariat to table the Report To Those Charged With Governance for Tourism Ireland at the next meeting of DAC.**

### **INVESTIGATIONS**

52. Colin Lewis provided the Committee with an update on the progress of a current investigation.

### **GUIDANCE ISSUED SINCE LAST MEETING**

53. Terry Coyne drew the Committee's attention to three particular pieces of guidance issued since the last meeting – DFP's Annual Fraud Report; Commenting on PAC related issues; and Guidance on the Use of External Consultants. David Sterling reiterated the requirement for consultancy expenditure to be reduced by 10%.

**ANY OTHER BUSINESS**

54. The date of the next meeting will take place on 15 December 2011 at 2.00pm in Conference Room A, Netherleigh. There being no further business, the meeting was concluded.

## DEPARTMENTAL AUDIT COMMITTEE

### AGENDA FOR MEETING ON 15 DECEMBER 2011 AT 2PM IN CONFERENCE ROOM A, NETHERLEIGH: MEETING EXPECTED TO LAST APPROXIMATELY 2 HOURS 15 MINUTES

1. Chairman's introduction. *Time 5 minutes.*
2. Declaration of any issues that might give rise to a real or perceived conflict of interest (Chairman). *Time 5 minutes.*
3. Approval of minutes of previous meeting on 19 October 2011 meeting. (Chairman – minutes attached). *Time 5 minutes.*
4. Summary of progress on matters raised by Departmental Audit Committee at its previous meetings (Chairman – schedule attached) *Time 10 minutes*
5. The European Sustainable Competitiveness Programme Northern Ireland 2007 – 13 – Update on Annual Control Report & Annual Opinion 2011 (verbal update – Jackie Connolly *Time 10 minutes*)
6. European Sustainable Competitiveness Programme 2007/13 – Invest NI Issues (paper attached – Mel Chittock) *Time 10 minutes*
7. Audit Committee Effectiveness Review (paper attached - Chairman) *Time 15 minutes*
8. NIAO Reports to Those Charged with Governance (paper attached – Tourism Ireland Limited) *Time 10 minutes*
  - DETI HQ – Iain McFarlane (verbal update)
  - Invest NI – Gerry McGinn (verbal update)
  - NITB – Thompson Keating (verbal update)
  - HSENI – Stephanie Lowry (verbal update)
  - GCCNI – Bob McCann (verbal update)
  - TIL – Colette Kane / Noel Cornick
9. Revised Risk Management Processes in DETI (paper attached – Terry Coyne) *Time 10 minutes*
10. Risk Management Reports for quarter ended 30 September and Six Monthly Assurance Statements for 30 September 2011 (Papers attached) *Time 15 minutes*
  - DETI HQ - **Terry Coyne**
  - Invest NI – **Gerry McGinn**
  - NITB – **Thompson Keating**
  - HSENI – **Stephanie Lowry**
  - GCCNI – **Bob McCann**

11. Internal Audit Update Report to Audit Committee on Progress v Plan, Recommendations Register & Limited Opinions (paper attached – Elaine Dolan) *Time 10 minutes*
12. Suggested Internal Audit Key Performance Indicators (paper attached – Elaine Dolan) *Time 5 minutes*
13. NIAO Reports (verbal update – Colette Kane / Neil Grey) *Time 5 minutes*
14. Investigations (verbal update – Colin Lewis) *Time 5 minutes*
15. Guidance issued since last meeting (verbal update – Terry Coyne) *Time 5 minutes*
16. National Fraud Initiative 2010/11 (verbal update – Terry Coyne) *Time 5 minutes*
17. Mid Year Review of Shared Services by DFP Internal Audit (paper attached – Elaine Dolan) *Time 5 minutes*
18. AOB

## DAC Agenda Item 04

<b>19 OCTOBER 2011 DAC</b>				
<b>NO</b>	<b>ISSUE</b>	<b>ACTION POINT</b>	<b>ACTION BY</b>	<b>CURRENT STATUS</b>
1.	Presbyterian Mutual Society	Update to be provided at next DAC.	Colin Lewis	An update on the current position will be provided at 15 December DAC.
2.	Effectiveness of Audit Committees	DAC to be updated on progress.  HSENI & GCCNI to carry out reviews of the effectiveness of their Audit Committees.	David Beck  HSENI & GCCNI Audit Chairs	See Agenda item 5.  Verbal updates will be provided during discussion on agenda item 5.
3.	External Delivery Organisations Report 2009/10	Issues relating to the Technology & Strategy Board (TSB) EDO sponsor control report to be resolved.	Invest NI	Mel Chittock to provide the Committee with an update on progress.
4.	DETI Organisational Review	DAC to be periodically briefed on progress.	David Sterling	Appropriate updates will be provided.
5.	Reports To Those Charged With Governance	Implementation of recommendations to be confirmed at future DAC meetings.  Report to Those Charged With Governance for TIL to be tabled at next DAC.	Iain McFarlane and NDPB representatives.  Secretariat	See agenda item 6  See agenda item 6

6.	IAS Update Report to Audit Committee on Progress v Plan & Limited Opinions	<p>IAS to report on progress on the implementation of outstanding recommendations in the DETI Recommendation Register.</p> <p>Consideration to be given to raising with CPD the risks inherent in relying on EDOs that depend on a small number of government contracts for their continuing existence.</p> <p>Bio Business EDO inspection report.</p>	<p>Elaine Dolan</p> <p>David Sterling</p> <p>Mel Chittock</p>	<p>See agenda item 8.</p> <p>Update to be provided at 15 December DAC.</p> <p>Update to be provided at 15 December DAC – see agenda item 8.</p>
7.	External Quality Assessment of IAS	Secretariat to engage with DFP in relation to the approach to External Quality Reviews where the internal audit function is provided by the private sector.	Iain McFarlane	Update to be given at 15 December DAC.
8.	Internal Quality Assessment of IAS.	DAC to be periodically briefed on progress.	Elaine Dolan	Appropriate updates will be provided.

9.	Departmental Audit Strategy & Plan 2011/12	Implementation of strategy to be periodically reviewed by DAC  Paper to be provided on comparison of proposed IAS Key Performance Indicators with other Internal Audit branches	IAS  Elaine Dolan	Appropriate updates will be provided.  See agenda item 9
10.	Valence Technology Report	Remaining recommendations from PAC report to be implemented.	Mel Chittock	Update to be given at 15 December DAC
11.	European Sustainable Competitiveness Programme 2007/13	Invest NI to continue to take remedial action	Invest NI	See agenda item 11

**27 JUNE 2011 DAC**

<b>NO</b>	<b>ISSUE</b>	<b>ACTION POINT</b>	<b>ACTION BY</b>	<b>CURRENT STATUS</b>
12.	Test Drilling	Accountability & Casework to monitor implementation of recommendations made in the Test Drilling Report.	Iain McFarlane	4 out of 5 recommendations have already been implemented. The final recommendation is in the process of being implemented. Progress to be reported at 15 December DAC.