

## **MINUTES OF DEPARTMENTAL AUDIT COMMITTEE HELD ON 15 DECEMBER 2011**

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

**In attendance:**

Trevor Cooper	(DETI)
Iain McFarlane	(DETI)
Terry Coyne	(DETI)
Elaine Dolan	(DETI)
Jackie Connolly	(DETI)
Mel Chittock	(Invest NI)
Thompson Keating	(NITB Audit Committee Chair)
Stephanie Lowry	(HSENI Audit Committee Chair)
Bob McCann	(GCCNI Audit Committee Chair)
Colette Kane	(NIAO)

**Apologies:** David Sterling (DETI)  
Colin Lewis (DETI)  
Gerry McGinn (InvestNI)  
Neil Gray (NIAO)

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

### **PRELIMINARY**

1. The Chairman welcomed attendees to 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. Bill McGinnis stated that he had changes to make and would make them through the Register of Interests. All other 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 19 OCTOBER 2011**

5. The minutes of the 19 October 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 – In relation to the Presbyterian Mutual Society, Trevor Cooper informed the Committee that a project manager had been appointed on a part time basis and that Jackie Kerr, a new Grade 5, within the Department (Business Regulation Division) would eventually have overall responsibility for the project and replace Mike Bohill who is the Grade 5 currently responsible for PMS. Bill McGinnis enquired if a schedule of payments was in place. Trevor confirmed that a schedule of payments was in place and that the first payment had been met. Trevor further stated that an independent Insolvency Practitioner/Accountant would be commissioned for advice if needed and that Tughans solicitors had already been engaged to provide legal advice.
8. Schedule item 3 –Mel Chittock reported that Invest NI is currently considering responses to the revised ASM Horwath draft report on the Technology Strategy Board. It was confirmed that retrospective approval would be sought from the Invest NI Board and the Minister for expenditure incurred.
9. Schedule item 4 – Trevor Cooper informed the Committee that following the organisational review, Finance Division will be assuming responsibility for the oversight/financial governance for NDPBs which will require additional staffing resources. Two Deputy Principals will be appointed alongside an additional Grade 7 in relation to the additional workload.
10. Schedule item 6 –. Trevor Cooper informed the Committee that DETI and Invest NI were working towards the production of a draft letter for David Sterling to issue to CPD in relation to the risks around the increased use of Third Sector Organisations to deliver public services.
11. Schedule item 6 - Mel Chittock informed the Committee that following the EDO review of Bio Business a note will be circulated within the next few weeks reiterating the need for EDOs to have procurement procedures in place.
12. Schedule item 7 – Iain McFarlane reported to the Committee that he had interacted with DFP in relation to External Quality Reviews of IAS services which are contracted out to the private sector. DFP confirmed that they do not intend issuing central guidance on the matter stating that each assignment has unique characteristics and that

a generic approach would not be suitable. The DAC members stated that this was disappointing as there appear to be efficiencies and economies of scale that could be achieved through sharing of practices and approaches across the NICS. Elaine Dolan confirmed that she had informed other HIAs of the review currently being undertaken by DETI's IAS on the HSENI internal audit function which is contracted to PWC.

13. Schedule Item 10 - Mel Chittock reported that 17 of the 20 recommendations had been implemented. Two are being progressed within the context of the Invest NI "Transform" programme. One recommendation is policy related and is being progressed within DETI.
14. Schedule item 12 – Iain McFarlane reported that there is one outstanding recommendation from the 2010-11 test drilling exercise which is being implemented by Invest NI from April 2012.

**THE EUROPEAN SUSTAINABLE COMPETITIVENESS PROGRAMME (ESCP) 2007/13 – UPDATE ON ANNUAL CONTROL REPORT AND ANNUAL OPINION 2011.**

15. Jackie Connolly reported that the European Court of Auditors (ECA) carried out an audit of the Audit Authority in respect of the ESCP during December 2010 and January 2011. This resulted in a draft report, to which responses were provided and, following a meeting with the ECA, a final report was produced. The European Commission, DG Regio Auditors, are now responsible for follow-up of actions taken to address findings and recommendations. The points raised relate to both the Audit Authority and Internal Audit and the relationship between the two branches. Jackie explained that while the Audit Authority and Internal Audit are not in full agreement with the final conclusions, steps have been taken to meet the very exacting standards of the ECA and the Commission. This includes updating checklists and working papers to more closely align to those used by the Commission, particularly in respect of procurement and State Aid.
16. Trevor Cooper stated that in relation to checks pertaining to procurement it may be necessary to consider bringing in specialist advice.
17. The Department's response to the European Commission is to be tabled at the next meeting of the DAC.
18. In relation to the Annual Control Report and Annual Opinion 2011, Jackie confirmed that the Audit Authority is working with management to finalise audit findings. This process is concluding later in the year than preferred.. A draft error rate at the date of the meeting was 4.23%, however, this could increase or decrease as the remaining reports are finalised. Jackie also explained that as audit tests are based on a sample, error rates must be projected, and given the EU methodologies there can be upward variation from the sample rate. Jackie also explained that one further issue would be highlighted in relation to procurement. In April 2009 the Office of Government

Commerce (OGC) advised that it was no longer appropriate to use experience as an award criteria, following a ruling in the European Court of Justice. However, the Commission's view is that this was merely a clarification and all procurement using experience was in contravention of the EU regulations. As some contracts of this nature are within the Audit Authority sample, DFP advice was sought. DFP is currently pursuing clarification through CPD and its legal advisors and has confirmed that until the Northern Ireland position is fully clarified, expenditure resulting from contracts that have used experience as an award criterion, prior to the OGC advice, should not be used in the calculation of error rates reported to the Commission.

19. It was agreed that progression of work in support of the Annual Control Report and an Audit Authority update on actions relating to disallowances should be standard Agenda item for the DAC, and the Audit Committees of NDPBs incurring the EU expenditure on the ground.

**Action (1): Jackie Connolly to ensure that the Department's response to the European Commission is tabled at the next meeting of the DAC.**

**Action (2): Progression of Audit Authority work programme, and update on control issues should be a standing agenda item at future DAC meetings, and at meetings of the Audit Committees of NDPBs delivering EU funding.**

### **EUROPEAN SUSTAINABLE COMPETITIVENESS PROGRAMME 2007-13 – INVEST NI ISSUES**

20. Mel Chittock informed the Committee that issues from compliance checks relating to the eligibility of expenditure claimed by Invest NI under the EU Competitiveness Programme have been addressed. The Project Board for the Programme continues to meet monthly. Oversight of remedial action to ensure compliance remains within the Project Board's remit.
21. Mel went on to confirm that Invest NI's EU Programmes team has carried out a review of the overall administrative function related to EU funding within Invest NI to establish any lessons that can be learned from the events of the past twelve/eighteen months. A list of actions has been produced and presented to senior management for consideration. The implementation of these will take place over the coming months.

### **AUDIT COMMITTEE EFFECTIVENESS REVIEW**

22. David Beck confirmed that members of the DETI Audit Committee have carried out a review of its effectiveness. The review was supported by the Secretariat and by Internal Audit Service.

23. The Departmental Board had considered a paper on Audit Committee Effectiveness at its 22 November meeting and had endorsed the following proposals:-

- The DAC should contain no members with executive responsibility.
- Another member, drawn from the wider public sector, should be recruited.
- The quorum should be reduced to two members.
- The numbers attending meetings should be reduced, with NDPBs submitting papers in advance of each meeting and only being required to attend if needed.

24. It was agreed that these actions would be implemented as soon as possible, and in particular the next meeting of the Departmental Audit Committee would be in its reconstituted form.

25. David Beck welcomed the invitations he had received to attend meetings of NDPB Audit Committees and indicated that he will attend the Invest NI Audit Committee meeting in February 2012.

**Action: Actions arising from the review of Audit Committee effectiveness to be implemented as soon as possible.**

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

26. Iain McFarlane confirmed that in relation to the DETI Report to Those Charged with Governance three outstanding priority two issues were being addressed at present. Other issues have been addressed.

27. Mel Chittock confirmed that the thirteen issues raised in Invest NI's Report to Those Charged with Governance had been addressed

28. Thompson Keating confirmed that the three priority one issues in the NITB Report to Those Charged with Governance are being addressed.

29. Stephanie Lowry confirmed that HSENI's two priority two recommendations have been implemented and one priority three recommendation is being addressed.

30. In relation to GCCNI Bob McCann confirmed that all outstanding issues relating to the irregular payments of salary have been resolved.

31. Colette Kane informed the Committee that Tourism Ireland Ltd's accounts were laid before the Assembly on 10 September with an unqualified opinion. A discussion took place around the Report to Those Charged with Governance, in particular to the provision of retirement gifts for staff from public funds. It was agreed that clarification on the issue of NI and ROI respective procedures would be sought from DFP.

**Action: ACB to seek clarity on implementation of respective policy and procedures from DFP.**

## REVISED RISK MANAGEMENT PROCESSES IN DETI

32. Terry Coyne informed the Committee that over the past few months the Departmental Board has been considering proposals for a more integrated and streamlined risk management process which would reflect current best practice. The aim was to reduce the number of corporate risks from twenty four to a more manageable figure of around ten. At its 22 November meeting, the Departmental Board considered a paper on the revised risk management processes and agreed the following:

- That the draft corporate plan should include an objective relating to the repayment of the Presbyterian Mutual Society loan;
- That a specific risk relating to the development of appropriate strategies and policies should be included;
- A risk appetite should be identified for each corporate risk;
- That Corporate risks as amended would be reviewed by the Senior Management Team and Departmental Board in January 2012;
- That the Departmental Board will be sighted on Divisional Risks with a high or medium impact and a high likelihood. Heads of Division may be asked to attend Departmental Board to provide more detail on the management of risk in their Division.

33. A report on the January 2012 review of the corporate risk register will be provided, along with the corporate risk register, to the Departmental Audit Committee at its meeting on 6 March 2012. Divisional risks are to be reviewed and risk registers updated by 31 March 2012.

34. Mel Chittock confirmed that Invest NI had completed an overview of its risk register with a view to simplifying the process especially in relation to high level risks. Mel agreed to forward the output from the process to the Department and NDPBs on request. David Beck and Trevor Cooper endorsed the new processes within DETI and Invest NI and suggested that other bodies look to see whether their approach should be aligned. Bob McCann and Stephanie Lowry agreed that they would look at the risks in their organisations to align processes with the Department as far as possible.

**Action: Risk management processes within NDPBs to be reviewed by NDPB's to ensure a commonality of approach.**

## RISK MANAGEMENT REPORTS FOR QUARTER ENDED 30 SEPTEMBER AND SIX MONTHLY ASSURANCE STATEMENTS FOR 30 SEPTEMBER 2011

35. Terry Coyne reported that the report for DETI HQ before the Committee is based on the current approach to risk management. He went on to report that during the quarter three new divisional risks were

created. Two telecoms risks relating to the broadband speed and mobile broadband coverage reflect new pieces of work being undertaken within the Department. Energy Division has also identified a new risk relating to the abilities of electricity generators to meet demand.

36. David Beck inquired into the Insolvency risks which highlighted the loss of experienced staff. It was confirmed that this issue was being addressed as part of considerations by Top Management across all Divisions.
37. In relation to the six monthly Assurance Statements, Terry Coyne confirmed that Finance Division is continuing to work closely with Invest NI in relation to its expenditure. Finance Division has also received EU audit reports in relation to work undertaken by the Audit Authority on the European Regional Development Fund (ERDF) and the European Social Fund (ESF). A number of ERDF related issues have been closed and an action plan will address any outstanding issues. The Audit Authority and IAS are working on a response to the draft European Social Fund report.
38. Enterprise NI is currently pursuing legal proceedings against Invest NI in relation to the loss of a contract to deliver the "Go For It" programme. As part of the "discovery" process the Department has been asked to provide solicitors acting on behalf of Enterprise NI with copies of all EDO reports undertaken. The Department is currently seeking legal advice on its obligations.
39. Mel Chittock confirmed that there were no significant risks to report in relation to Invest NI.
40. Thompson Keating informed the Committee that NITB had nine key risks, two of which had escalated during the quarter with the other seven remaining unchanged. He further reported that funds relating to the Titanic slipways had been secured.
41. Stephanie Lowry confirmed that there was nothing to report in respect of HSENI.
42. Bob McCann confirmed that the payroll issues within GCCNI had been resolved. Bob confirmed that there was nothing to report in relation to risk management within GCCNI for the quarter.

#### **INTERNAL AUDIT UPDATE REPORT TO AUDIT COMMITTEE ON PROGRESS v PLAN, RECOMMENDATIONS REGISTER AND LIMITED OPINIONS**

43. Elaine Dolan reported that progress has been made since the last DAC meeting in relation to the 2010/11 plans and that the only work now to be completed related to the DETI Risk Management review and four of the Invest NI EDO reviews which were out sourced.

44. Elaine confirmed the position outlined at the last meeting in relation to slippage on the IAS programme. She reported that a business case has been approved and a bid secured to outsource a number of reviews. IAS is currently liaising with CPD on this issue.
45. Elaine confirmed that Recommendations Registers are now in place for DETI, Invest NI and NITB. 59 recommendations are being carried forward for DETI, 42 for Invest NI and 35 for NITB. She stressed that it is important to note that the majority of recommendations being carried forward have not yet been subject to IAS follow up testing and therefore a number of these may have now been implemented. She highlighted that NITB has outstanding recommendations relating to payroll – namely the difference in pay scales between NITB and NICS arising from NITB's participation in the NILGOSC pension scheme and the payment of FCO rates to staff based in Dublin.
46. Elaine confirmed that all of DETI's high risk recommendations relate to the review of GSNI/Minerals Branch which led to a report with a limited opinion. Management have confirmed that work is underway in implementing the recommendations made. IAS will continue to follow up all recommendations on a rolling basis and will provide a further update at the next DAC.
47. In relation to limited opinions, Elaine reported that with the exception of the GSNI/Minerals Branch, no new limited opinions have arisen since the last DAC meeting. Invest NI continues to carry five limited opinions but Elaine indicated that that on the basis of discussions with management, it is likely that IAS's follow up testing will confirm that two of the Invest NI limited opinions can now be removed.

**Action: IAS to provide update on Recommendations Register at the next meeting of the DAC**

### **SUGGESTED INTERNAL AUDIT KEY PERFORMANCE INDICATORS**

48. Elaine Dolan confirmed that IAS had undertaken a benchmarking exercise of its suggested Key Performance Indicators (KPIs) against KPIs used by five other Internal Audit Units.
49. Following discussion, the Committee endorsed the proposed suite of KPIs for DETI's Internal Audit Service.

### **NIAO REPORTS**

50. Collette Kane informed the Committee that NIAO was completing its draft DETI Audit Strategy and that this will be ready for the next meeting of DAC.
51. Collette Kane informed the Committee that the NIAO Report into Bio Science and Technology Institute Ltd would be considered at a Public Accounts Committee evidence session on 18 January 2012.

52. Collette indicated that the NITB Signature Projects Report will be published before Christmas and the report on Invest NI performance should be published early in 2012.

**Action: NIAO to present the DETI Audit Strategy at the next meeting of the DAC.**

## **INVESTIGATIONS**

53. Trevor Cooper provided the Committee with an update on the progress of a current investigation.

## **GUIDANCE ISSUED SINCE LAST MEETING**

54. Terry Coyne drew the Committee's attention to guidance which issued under DAO (DFP) 05/11 entitled 'Annual Theft and Fraud Report'. He commented that the purpose of the report is to give Departments and their bodies an indication of the extent of fraud (in terms of actual, attempted and suspected cases reported to DFP) and an insight into the control practices required to reduce the risk of fraud.

## **NATIONAL FRAUD INITIATIVE**

55. Terry Coyne gave an update on the National Fraud Initiative. No overpayments or suspected frauds have been found to date. He confirmed that the exercise is on target to complete all investigations of matches prior to Christmas.

## **MID YEAR REVIEW OF SHARED SERVICES**

56. Elaine Dolan asked the Committee to note the report which provides a mid-year opinion by the DFP Head of Internal Audit on all services provided by DFP to other Departments. This relates to Enterprise Shared Services (Account NI, IT Assist, HR Connect and CAL) and Central Procurement Directorate. Elaine highlighted that a satisfactory opinion is provided for all areas based on reviews and follow up work undertaken in the year to date.

57. The Committee duly noted the above report.

## **ANY OTHER BUSINESS**

58. David Beck thanked all for their attendance and wished all a happy Christmas and New Year. In addition David expressed best wishes to Elaine Dolan who is about to embark on maternity leave.

59. Collette Kane noted that the loss of a computer storage device by way of a mugging of a member of staff had occurred (with no security risk), and suggested that all fraud notifications should be brought to the attention of the DAC. It was agreed that this would be useful.

60. Terry Coyne undertook to forward details to Departmental Audit Committee members of any training courses of which he becomes aware which may be useful for development purposes.
61. David asked all to note the date of the next meeting on Tuesday 6 March at 2.00 pm in Netherleigh.
62. There being no further business the meeting was adjourned.