

**DRAFT MINUTES OF DEPARTMENTAL AUDIT COMMITTEE
HELD ON 12 DECEMBER 2012 AT DETI, NETHERLEIGH**

Present: David Beck (Chairman)
Bill McGinnis (Audit Committee Member)
Anthony Harbinson (Audit Committee Member)

In attendance: Colin Lewis (DETI)
Trevor Cooper (DETI)
Jackie Connolly (DETI)
Elaine Dolan (DETI)
Iain McFarlane (DETI)
Terry Coyne (DETI)
Colette Kane (NIAO)
Neil Gray (NIAO)

Apologies: David Sterling (DETI)

Minutes: Francine Manikpure (DETI)

PRELIMINARY

1. The Chairman welcomed members and attendees to the Departmental Audit Committee. The Chairman welcomed Francine Manikpure and thanked Carol Donnelly for taking the minutes over the last few years.

POTENTIAL CONFLICTS OF INTEREST

2. Bill McGinnis informed the Committee that he had updated his register of interests over the last few days and had submitted it to the Department. He confirmed that there was nothing in the business of this meeting that would give rise to a conflict.
3. 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
4 OCTOBER 2012**

5. The minutes of the 4 October 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 2 – Elaine Dolan confirmed that the draft report on the management of telecommunications projects funded under the Interreg IIIA programme had been forwarded by DETI management to the ROI department, DCENR, for consideration by its management.
8. Schedule Item 2 – Iain McFarlane updated the Committee on preparations for consolidating the accounts of the Department and its Arms Length Bodies (ALBs). Consolidation is scheduled to take place from 2015 onwards but there will be two dry run years beforehand in 2013 and 2014. Colette Kane considered it unlikely that NIAO would undertake a full audit of the first year's dry run accounts.
9. Schedule Item 2 – Elaine Dolan confirmed that the IAS follow up review of NITB procurement would take place at the beginning of January 2013 with a full review taking place in July / August.
10. Schedule Item 2 – Terry Coyne reported that TIL has confirmed that retirement gifts will no longer be provided from public funds.
11. Schedule Item 2 – Terry Coyne confirmed that NITB was bringing its risk management processes into line with those in the Department and other NDPBs.
12. Schedule Item 3 – Trevor Cooper confirmed that DFP had considered whether a protocol should be developed for referrals of the conduct of professionals to professional bodies. DFP had concluded that as such bodies already had well established protocols for dealing with referrals there was insufficient appetite for a protocol to be developed.
13. Schedule Item 4 – Elaine Dolan reported that sufficient resources now existed to deliver the revised risk based internal audit plan for 2012-13. Although there was a shortfall in terms of internal staff this had been addressed through the engagement of external support. Elaine confirmed that she would keep the position under review. Bill McGinnis questioned whether the Department had sufficient capacity in terms of resource and asked whether a contingency should be built in to the plan to cope with unexpected events. Elaine responded that a 10% contingency is built in but that the last couple of years have been exceptional for the branch in terms of resource constraints. Elaine stated that resource calculations undertaken suggest that the full team complement is appropriate. She reported that internal audit currently had one vacant post. Trevor Cooper confirmed that funding was available to engage external support. In response to a question from the Chairman about the availability of external support at short notice, Elaine stated that she was confident that capacity existed in the private sector and that if one firm was unable to supply resource the next firm on the call off list would be approached.
14. Schedule Item 5 – Elaine Dolan confirmed that she had consulted with HIA colleagues on the merits of charging for External Quality Assurance (EQA) Reports on internal audit functions that had been contracted out by NDPBs. The view expressed by HIA colleagues was

that if charging were to be considered it would have to be included at the outset of the contract. The Chairman asked if reliance could be placed on quality assurance work carried out by other departments on private sector internal audit firms. Elaine confirmed that this had been raised with DFP previously but that advice received indicated that an EQA should be undertaken for each internal audit function that was outsourced. Anthony Harbinson commented that this approach did not appear to represent value for money as it meant that there was duplication of work.

15. Schedule Item 7 – Terry Coyne reported that he intended to commence a review of the Department’s gifts and hospitality policy in the New Year and that the Bribery Act would be taken into account.
16. Schedule Item 8 – Trevor Cooper confirmed that the PAC hearing on Invest NI performance had now been officially confirmed for 6 February 2013.

Action 1: Progress of draft Interreg IIIA Report to be reported at next DAC.

Action 2: David Conliffe and Colette Kane to continue to update DAC as appropriate on preparations for Clear Line of Sight within the Department, NDPBs and Cross- border Bodies.

Action 3: Review of gifts and hospitality policy to include reference to the Bribery Act 2010.

AUDIT COMMITTEE EFFECTIVENESS REVIEW

17. Terry Coyne outlined the progress that had been made on the recommendations arising out of the review of the effectiveness of the DETI Audit Committee. He reported that 16 out of 23 recommendations had been implemented with a further four to be implemented in the near future. The remaining three recommendations are not timebound and will be implemented as circumstances arise. The Chairman asked for a “wash up” report to be provided at the 29 May 2013 meeting.

Action: Final progress report to be provided for the 29 May 2013 meeting.

NORTHERN IRELAND AUDIT OFFICE: REPORTS TO THOSE CHARGED WITH GOVERNANCE

Insolvency Account

18. Colette Kane informed the Committee that she expected the Report to Those Charged with Governance in relation to the Insolvency Account to be available for the next DAC meeting in March 2013.

Northern Ireland Tourist Board / Giants Causeway Visitor Facilities Ltd

19. Colette Kane outlined the issues that had emerged in the Reports to Those Charged with Governance (RTTCWG) for NITB and GCVF. She drew attention to the two priority one issues in NITB – capture of accruals and segregation of duties for journal entries. Colette confirmed that she had attended the NITB audit committee which had robustly challenged the Executive on the issues. Colin Lewis confirmed that the Permanent Secretary had referred to the RTTCWG in his response to NITB's six monthly assurance statement and that NITB officials were due to attend the Departmental Board where a discussion will take place on financial management including the accruals issues referred to in the RTTCWG.
20. Colette went on to refer to Departmental Directions to NITB and the desirability of putting protocols in place where a Direction involves NITB making payments. Colette confirmed that the payments examined by NIAO made as a result of a Departmental Direction were considered regular as legislation was in place to allow such directions to be made. In the discussion that followed, Anthony Harbinson commented that it was not unusual for departments to be able to direct NDPBs that they sponsor however such instances would normally be very limited in number. Colin Lewis remarked that the number of Departmental Directions was higher than normal because of the increased activity associated with the flagship NI 2012 campaign and confirmed that David Thomson was currently engaging with NITB on the issue. Trevor Cooper noted that it was important that a body did not get into the situation where it expected to receive directions in regard to policy programme implementation that was part of its substantive role. The Committee agreed that where a Departmental Direction is contemplated early engagement is highly desirable.
21. Trevor Cooper confirmed to the Chairman that the issue would be referred to in NITB's MSFM and Terry Coyne reported that the legislation establishing Invest NI provides the Department with similar powers of direction.

Action: Reference to Departmental Directions to be included in NITB's MSFM.

InterTradeIreland

22. Colette Kane outlined the issues in ITI's RTTCWG which was produced on a cross border basis by the two C&AGs. The Committee noted the delay in approving ITI's Operating Plan for 2011, which was to a large extent attributable to the longer approval process inherent in the environment in which cross border bodies operate. Colin Lewis confirmed that the provision of Operating Plans by all the Department's sponsored bodies is currently being examined with a view to ensuring that they contain the information required by their MSFMs and that they are submitted in a timely manner.

BTI – PROGRESS ON IMPLEMENTATION OF PAC RECOMMENDATIONS

23. Trevor Cooper updated the Committee on progress made on the implementation of recommendations made in the BTI PAC report.
24. Trevor Cooper drew the Committee's attention to the review of Invest NI's records management processes at Recommendation 3. He confirmed that the findings in the draft report had been discussed by Invest NI's Board Audit Committee and would be considered by the Department in due course.
25. In relation to Recommendation 10, Trevor reported that a reminder had been sent to the PSNI and that a senior officer would shortly telephone the lead PSNI officer to try to ensure that the matter was progressed. Trevor informed the Committee that the lead PSNI officer was due to move on in the near future.
26. Trevor Cooper confirmed that David Sterling had tabled a paper with his senior managers around the issues of leadership and management culture referred to in Recommendation 14. It was noted that the issues arose some considerable time ago and that Top Management believed that there have been significant improvements in departmental culture, values and behaviour versus that which appear to have operated at the time of the project.

Action: Progress to continue to be monitored by Departmental Audit Committee

THE EUROPEAN SUSTAINABLE COMPETITIVENESS PROGRAMME (ESCP) 2007/13 – UPDATE ON ANNUAL CONTROL REPORT AND ANNUAL OPINION 2012.

27. Jackie Connolly outlined the paper on the Annual Control Report and Annual Opinion 2012. The report is still in draft form and is continuously being updated in light of work that is currently being undertaken by the Audit Authority.
28. Jackie reported that the draft projected error rate is 0.41%. However, one procurement issue remains outstanding with NITB and, if unresolved, will result in a final projected error of 0.43%. Regardless of this the error rate is significantly below the 2% materiality threshold set

by the Commission, therefore, there is no prevailing threat of interruption or suspension.

29. In response to a question on the current position regarding the Titanic project, Jackie confirmed that the Department still took the view that expenditure is eligible based on legal advice from Senior Counsel. Engagement with the Commission is continuing and no final decision has been made.
30. Colin Lewis stated that he was gratified that the error rate had been reduced and that interruption of the programme is not going to be an issue. The Chairman commended the work that had been done on EU compliance and referred to the benefits that were now being reaped from the additional resource that Invest NI had allocated to this area.
31. Colin Lewis referred to the importance of EU funding for future public expenditure in Northern Ireland but cautioned that new EU programmes would have different rules and regulations which must be carefully complied with.
32. Anthony Harbinson asked that consideration be given to sharing learning points with other departments in due course and David Beck concluded the discussion by thanking Jackie Connolly and her team for the work they had undertaken. Bill McGinnis also thanked Maeve Hamilton in her absence for the work that the Managing Authority had done in raising awareness of EU regulations.

Action: Control Report and Annual Opinion to be finalised and submitted to Commission.

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

33. Elaine Dolan reported that a revised draft DETI IAS programme for 2012-13 had been prepared in consultation with senior management. The plan was approved by the Accounting Officer and endorsed by Departmental Audit Committee members.
34. Elaine confirmed that fieldwork was complete on all the 2011-12 audits, there were a number of reports that had still to be issued in draft or final version and that IAS was treating the progression of these as a priority. Elaine indicated that all the reports contained satisfactory opinions.
35. Elaine reported that delivery of the 2012-13 programme was running behind schedule but that she anticipated that IAS would catch up in the final months of the year.
36. Anthony Harbinson questioned whether Branch management were delaying the completion of audit work through being unavailable when IAS wished to commence fieldwork or by failing to provide timely responses to draft reports. He informed the Committee that in the

Department of Justice tight deadlines are set for responses and that IAS work commences on schedule. Elaine Dolan to report back to the Committee on whether a target date for management responses to draft reports has been set.

37. Colette Kane referred to the risk that management will not have time to take corrective action in advance of the year end in the event that a report is issued with a limited opinion due to the internal audit plan being substantially delivered in the last quarter of the financial year. Specific reference to any limited opinions will need to be reflected in the Governance Statement.
38. Elaine Dolan outlined the position in relation to the three limited opinions which are currently being carried forward. Follow up work conducted on GSNI / Minerals is likely to result in the limited opinion being upgraded to satisfactory. Follow up work on the Enterprise NI EDO inspection report is being undertaken by Deloitte but there is a risk that the limited opinion will remain in place. Trevor Cooper confirmed that he had raised the Enterprise NI EDO report at the Invest NI O&L meeting and informed the Committee that Invest NI would engage further with Enterprise NI. Colin Lewis added that David Sterling had asked Invest NI for an update on the issue by the end of January 2013. Follow up work on NITB procurement will now be conducted in January 2013.

Action 1: IAS to keep resource position under review.

Action 2: IAS to report back to Committee on whether a target is in place for management responses to draft internal audit reports

RISK MANAGEMENT

39. Terry Coyne outlined the work that members of the Department's Top Management Team and Departmental Board are currently undertaking to make the Corporate Risk Register more focussed and effective as a management tool.
40. Anthony Harbinson concurred with the approach being taken and observed that organisations that have too many corporate risks experience difficulty in effectively managing them.
41. Terry Coyne confirmed that Accountability and Casework Branch would work in support of Colin Lewis and the Top Management Team to produce a revised Corporate Risk Register which will contain seven corporate risks. The Chairman reminded the Committee that the Departmental Board has a copy of the Corporate Risk Register when it discusses risk.
42. There was a discussion around sharing of risks between the Department and NDPBs and it was agreed that the O&L meetings provided an opportunity for discussion to take place on whether it was appropriate for an NDPB risk to be mirrored in the Department's risk registers.

43. The Committee noted the position in relation to the Energy Division risk on the Carbon Price Floor.

Action: Revised Corporate Risk Register to be drafted by mid December.

SIX MONTHLY ASSURANCE STATEMENTS

44. Terry Coyne reported that a number of issues referred to in the six monthly assurance statements had already been discussed by the Committee.

45. He drew attention to the retrospective approval obtained in relation to the extension of an Analytical Support Unit contract. This had been identified as a result of a test drilling exercise undertaken by Finance Branch. He also drew the Committee's attention to staffing constraints currently being experienced by Policy Group.

46. In relation to Management Services Group, Terry Coyne referred to the repayment of the Presbyterian Mutual Society loan which is also on the Corporate Risk Register and informed the Committee that the N+2 target for EU expenditure has now been achieved. Finally, he confirmed that the provision of Operating Plans by all the Department's sponsored bodies is currently being examined to ensure that they meet the requirements of their MSFMs and are submitted in a timely manner.

UPDATES FROM NDPBs AND CROSS BORDER BODIES

47. Iain McFarlane outlined the issues which each of the NDPBs and cross border bodies had included in their updates.

48. Reference was made to EU issues in the Invest NI update.

49. The NITB update referred to ongoing work to determine the level of NITB salaries, which had historically been higher than their NICS equivalents to reflect higher pension contributions paid by NITB staff under the Local Government Officers' Superannuation Scheme (NILGOSC). Iain McFarlane reported that DFP has undertaken an exercise to gather information on other NDPBs that use NILGOSC as the basis for their pension scheme. Approximately 8 have been identified and the issue is under active consideration by DFP.

50. NITB's update also confirmed that the claim for dilapidation costs and unpaid rent for its Nassau Street, Dublin office had been concluded and settled in favour of NITB.

51. No significant issues have arisen in HSENI and the Consumer Council.

52. The cross border bodies have referred to the classification exercise which has resulted in them being classified as NDPBs. InterTradeIreland referred to its Audit Committee's deliberations on a suspected fraud which concluded that no fraud had taken place. The

Committee raised the issue of ITI's cash balances and it was confirmed that cash balances have been reduced but that the position would continue to be monitored.

NIAO REPORTS

53. Neither Colette Kane nor Neil Gray had anything to report.

INVESTIGATIONS

54. Iain McFarlane provided the Committee with an update on the progress of a current investigation into Bytel Networks Limited. He confirmed that Invitation to Tenders had been issued for the technical review and that the closing date for bidders to submit tenders was close of play today (12 December).

GUIDANCE ISSUED SINCE LAST MEETING

55. Terry Coyne drew the Committee's attention to guidance issued since the last meeting.

THEFT / FRAUD NOTIFICATIONS

56. Elaine Dolan highlighted that she had made a notification to NIAO/DFP in relation to an actual fraud in Invest NI whereby an employee was receiving sick pay from Invest NI whilst undertaking work for another organisation. Elaine confirmed that a repayment plan had commenced and that the fraud had also been reported to the PSNI.

NATIONAL FRAUD INITIATIVE

57. Terry Coyne confirmed that DETI's three datasets have been uploaded in line with the NFI timetable. Matches were expected to be available from 29 January 2013. He reported that a number of pilots are being undertaken next year outside the main NFI initiative. One of these will match Job Seekers Allowance payments to payroll.

FORWARD WORK PLAN / INDICATIVE AGENDAS

58. The Committee considered and noted the indicative agenda for the next meeting on 13 March 2013.

ANY OTHER BUSINESS

59. There being no further business the meeting was adjourned.