

**DRAFT MINUTES OF DEPARTMENTAL AUDIT COMMITTEE
HELD ON 4 DECEMBER 2013 AT DETI, NETHERLEIGH**

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

In attendance: David Sterling (DETI)
Eugene Rooney (DETI)
Trevor Cooper (DETI)
Elaine Dolan (DETI)
Jackie Connolly (DETI)
Iain McFarlane (DETI)
Terry Coyne (DETI)
Dovile Bagdonaite (DETI)
Colette Kane (NIAO)
David Murdie (NIAO)
Duncan McCausland (NITB)
Kathryn Thomson (NITB)

Apologies: Anthony Harbinson (Audit Committee Member)

Minutes: Rachel Linton (DETI)

PRELIMINARY

1. The Chairman welcomed members and attendees to the Departmental Audit Committee. He informed the Committee that Anthony Harbinson had sent his apologies as he was in London. He also informed the Committee that David Sterling had been called to an urgent meeting and would be delayed.
2. The Chairman welcomed Duncan McCausland and Kathryn Thomson from NITB. He went on to welcome Dovile Bagdonaite from Internal Audit Service, who was attending the meeting as part of her personal development process, Rachel Linton who was attending her first meeting, and David Murdie who was attending in place of Neil Gray from NIAO.
3. The Chairman informed the Committee that he had attended the Invest NI Board Audit Committee meeting and thanked Gerry McGinn for extending an invitation to attend. The Invest NI Board Audit Committee had had a useful and extensive discussion around risk management and the Internal Audit Programme. Duncan McCausland extended an invitation to the Chairman to attend an NITB Audit Committee meeting.

POTENTIAL CONFLICTS OF INTEREST

4. Audit Committee members stated that there were no changes in the interests that had previously been declared.

NORTHERN IRELAND TOURIST BOARD: PROGRESS ON IMPLEMENTATION OF GOVERNANCE ACTION PLAN

5. Duncan McCausland and Kathryn Thomson updated the Committee on progress made in implementing the Governance Action Plan. In so doing, Duncan indicated that the focus would be on actions that were “amber” and “red” rather than on actions that had already been completed.
6. Duncan informed the Committee that PWC had been awarded a contract which involves, inter alia, updating NITB’s Financial Procedures Manual. Kathryn Thomson explained that a manual is currently in place and PWC have been engaged to update it and expect to have produced a first draft of an updated manual by the end of week commencing 9 December with the manual being finalised by the end of December.
7. Bill McGinnis asked if NITB planned to run seminars for staff to brief them on the updated manual. Kathryn Thomson referred to the extensive training that has already taken place on purchasing and single tender actions and indicated that no additional training was contemplated as the existing manual is being updated rather than rewritten. Staff will, however, have the opportunity to raise questions about any changes that have been made.
8. Duncan McCausland informed the Committee that David Sterling had responded positively to issues raised by the NITB Chairman in relation to procurement. Progress was being made on the classification of non procurement expenditure and FAM visits and NITB is anxious to engage with the Department and CPD to resolve outstanding issues.
9. The Chairman asked Trevor Cooper and Eugene Rooney if they had any additional comments. Trevor Cooper informed the Committee that a meeting between Finance Division and NITB was planned for week commencing 9 December to agree an approach to FAM visits that would minimise risk and to agree the approach to be taken on various categories of non procurement expenditure. The approach to the majority of categories is reasonably clear but further engagement is required around sponsorship. Trevor concluded by indicating that he was satisfied that there is now a clear line of sight towards resolution. Duncan McCausland affirmed the position and informed the Committee that he expected that these issues would be resolved in the near future.
10. Bill McGinnis requested an update when agreement has been reached on the outstanding procurement issues. Trevor Cooper

agreed to provide the Committee with an update once agreement has been reached.

11. The Chairman asked if CPD was interacting with NITB and DETI. Eugene Rooney confirmed that both NITB and DETI are engaged with CPD. Kathryn Thomson added that NITB is experiencing difficulty with CPD in relation to turnaround time and quality of advice.
12. The Chairman concluded by expressing his hope that the issues would be cleared before the next DAC meeting in March 2014. Trevor Cooper confirmed that DETI will be meeting its CPD Account Manager regularly to discuss the issues affecting DETI and its NDPBs.
13. Duncan McCausland informed the Committee that a specification for tender frameworks for coaches, taxis, car hire etc had been submitted to CPD on 19 August 2013. He added that NITB hopes to have frameworks in place for these items by the end of December.
14. Duncan McCausland then referred to the Tourism Development Scheme which is currently subject to a review by IAS. Elaine Dolan confirmed that IAS was in the early stages of fieldwork but that the report should be available for the next NITB Audit Committee in March 2014. Kathryn Thomson added that PWC will be working on the TDS manual which it is anticipated will be ready by January 2014.
15. Duncan McCausland advised the Committee that NITB's Audit Committee is actively following up the implementation of outstanding IAS recommendations. Its focus is on issues older than 6 months and the expectation is that the number of these issues will decrease over the coming months.
16. Kathryn Thomson advised the Board that a Direct Award Contract had been put in place to cover Legal Services due to a delay with CPD agreeing the terms of the draft protocol.
17. Bill McGinnis expressed his concern that in the past there were too many cases of non-adherence with procedures. He sought an assurance from the NITB representatives that in future staff would be fully seized with the importance of following procedures. Duncan McCausland assured the Committee that NITB's aim was to instil a culture in which staff would not "cut corners". IAS has been asked to carry out "deep dive" audits to give assurance to the NITB Audit Committee that procedures are being followed. He further advised that spot checks of expenditure would be conducted and the results reported to Alan Clarke and Kathryn Thomson to provide further assurance in relation to compliance with procedures.

18. The Chairman concurred with the concerns expressed by Bill McGinnis in relation to the non adherence to procedures. He stressed the importance that the Departmental Audit Committee attaches to sound Corporate Governance and its concern to ensure that NITB's current governance issues are effectively addressed.
19. The Chairman asked the NITB representatives for some detail of the level at which issues encountered at operational level were reported. Kathryn Thomson confirmed that any issues encountered would be brought to her attention and further confirmed that regular spot checks were being carried out with the results being reported to her. The results of the spot checks undertaken to date indicated that there have been improvements.
20. Bill McGinnis asked Elaine Dolan if IAS had enough staff resources to carry out the work required. Elaine Dolan confirmed that staff resources were adequate.
21. The Chairman queried the NITB position in relation to Direct Award Contracts awarded in the first six months of 2013-14 and why none had been reported to the Department. Kathryn Thomson confirmed that none had been issued during the period.
22. The Chairman asked if Kathryn Thomson and her Executive Team were content that the Governance Action Plan is being delivered. Kathryn Thomson responded by stating that the CPD issues were still a significant risk but that overall NITB is content. The Chairman went on to ask Duncan McCausland if he was content. Duncan confirmed that, notwithstanding the outstanding CPD issues and current IAS work, both he and the NITB Board were content.
23. Eugene Rooney confirmed that there would be continuous engagement between DETI and NITB. DETI will continue to pay close attention to the issues and will be informed by the outcome of IAS work.
24. The Chairman asked if Colette Kane had any observations to make on behalf of NIAO. Colette stated that NIAO was encouraged by the progress reported to date.
25. The Chairman asked for Internal Audit's opinion on the timing of the follow up audit of NITB procurement. Elaine Dolan confirmed that lifting the limited opinion would be dependent on evidence being provided that recommendations had been implemented and procedures were in operation prior to the end of the financial year. Duncan McCausland confirmed that NITB will strive to ensure that procedures are in place and are operating in practice but accepted that there may be insufficient time for this to be demonstrated before the end of the financial year.
26. The Chairman concluded by stating that he hoped that a positive outcome would be reported to the Departmental Audit Committee at

its next meeting and indicated that NITB representatives might be asked to attend that meeting to provide an update.

27. Duncan McCausland and Kathryn Thomson left the meeting at this point.

Action: Trevor Cooper to revert to DAC when agreement on procurement issues has been reached with CPD.

APPROVAL OF MINUTES OF THE PREVIOUS MEETING ON 2 OCTOBER 2013

28. The minutes of the 2 October 2013 meeting were approved and adopted.

MATTERS RAISED BY DEPARTMENTAL AUDIT COMMITTEE AT ITS PREVIOUS MEETINGS

29. The Schedule of Action Points arising from previous meetings of the Departmental Audit Committee was reviewed. The position regarding to outstanding actions is as follows.

30. Schedule Item 1 - Elaine Dolan confirmed that a full follow up review on NITB procurement remains scheduled for February 2014.

31. Schedule Item 1 – Terry Coyne reported that consolidated guidance on gifts and hospitality had been drafted and would be available at the next DAC meeting

32. Schedule Item 3 – Iain McFarlane informed the Committee that the implementation of actions from the final test drilling report were being monitored and an update would be provided at the next meeting.

33. Schedule Item 4 – Terry Coyne informed the Committee that a number of Governance Statements had been obtained from other Departments and showed a broad consistency of approach. Colette Kane indicated that NIAO had produced a “fact sheet” which was available on its website.

THE EUROPEAN SUSTAINABLE COMPETITIVENESS PROGRAMME (ESCP) 2007/13 – 2013 PROGRAMME OF WORK AND UPDATE ON DG REGIONAL POLICY FOLLOW UP ON EUROPEAN COURT OF AUDITORS REPORT

34. In relation to the 2013 programme of work, Jackie Connolly informed the Committee that reports on 43 out of 44 projects had been finalised. The draft report had issued in respect of the remaining project and a response was expected in the coming days.

35. Jackie Connolly reported that the sample error is currently 0.25%, which gives an overall projected error rate of 0.67%. The 2013 Annual Control Report and Opinion is currently being drafted.
36. Jackie Connolly went on to inform the Committee that the Commission has formally confirmed that the DG Regio Audit is now closed.
37. Jackie Connolly concluded by informing the Committee that the N+2 target for the European Sustainable Competitiveness Programme had been met.
38. The Chairman commented that he was encouraged by the findings from the work of the Audit Authority which reflected the effort that has gone in to ensuring that there are sound systems of control over EU related expenditure. Bill McGinnis endorsed this and congratulated Jackie Connolly and her team. Jackie Connolly responded by referring to the work that Invest NI and the DETI Managing Authority has undertaken in order to ensure the validity of expenditure included in the Programme.
39. At this point Jackie Connolly left the meeting.

DETI REPORT TO THOSE CHARGED WITH GOVERNANCE

40. Iain McFarlane informed the Committee that the final Report to Those Charged with Governance (RTTCWG) in relation to DETI's 2012-13 accounts had been issued to the Accounting Officer by NIAO on 9 August. The RTTCWG had been discussed in detail at the previous Committee meeting.
41. In relation to the Priority One recommendation, Iain McFarlane reported that actuaries appointed to review the Harland and Wolff provision had issued their final report. This indicated that the provision for future liabilities should be reduced by £10m.
42. Iain McFarlane went on to inform the Committee that updated MSFMs for Invest NI and NITB are close to finalisation. He confirmed that existing MSFMs are currently in place for both NDPBs.
43. The remaining substantive recommendation, relating to the budgetary classification of HSENI administrative expenditure, had been addressed by the inclusion of additional disclosures in HSENI's accounts.
44. Other, minor, recommendations have been implemented.
45. The Chairman queried the length of time taken to finalise MSFMs. Trevor Cooper acknowledged that the process had taken longer than anticipated but that there were a number of contributory factors including IREP, the review of Invest NI's delegations, the

restructuring of the Department including changes to sponsor arrangements and the nature of the operations of the larger NDPBs which meant that the DFP “model” had to be amended to reflect specific operational issues.

46. David Sterling joined the meeting at this point.

DIRECT AWARD CONTRACTS

47. Trevor Cooper informed that Committee that, in the first six months of the 2013-14 year, one Direct Award Contract (DAC) had been let by DETI, seven by Invest NI and 6 by InterTradeIreland.

48. Although there is no requirement for Public Procurement Policy to be applied to North South Bodies they are expected to follow best practice and, as InterTradeIreland is headquartered in Northern Ireland, its DACs have been included.

49. A number of DACs have been let as a result of existing contracts expiring and being extended to permit a competition to take place. Trevor Cooper informed the Committee that internal control systems should ensure that advance warning is provided of the expiration of a contract so that competitive tendering can take place on a timely basis. A reminder to this effect will be issued.

Action: Trevor Cooper to ensure that a reminder issues in relation to the need to take timely action to retender when an existing contract is approaching the end of its life.

BTI – PROGRESS ON IMPLEMENTATION OF PAC RECOMMENDATIONS

50. Iain McFarlane updated the Committee on progress made on the implementation of outstanding recommendations made in the BTI PAC report.

51. Three recommendations are outstanding. A response is outstanding from the European Commission in relation to retention of records; two members of internal audit staff are to complete their fraud investigation training (one member of staff has successfully completed the training; and the PSNI have to conclude on the issues relating to potential fraud.

Action: Progress on outstanding recommendations to continue to be monitored by Departmental Audit Committee and recommendations which are complete to be removed from Implementation Plan.

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

52. Elaine Dolan updated the Committee on the results of the mid-year reviews of IAS plans which resulted in two proposed changes to the DETI plan. One of the proposed changes is the cancellation of the Travel & Subsistence review on the basis that sufficient reliance can be placed on DFP Internal Audit assurance over this area. The other proposed change is the deferral of the review of NDPB Sponsor Control arrangements until the 2014-15 in light of the work that NIAO had done in relation to sponsor control arrangements for NDPBs in general and NITB in particular. Elaine confirmed that the proposed changes were submitted to DETI Senior Management and the Accounting Officer was content. The Committee endorsed the revised plan.
53. A mid-year review of the Invest NI IAS plan resulted in two audits being deferred: Access to Finance and Recoveries/Clawbacks. The proposed changes were endorsed by the Invest NI Board Audit Committee. Elaine also highlighted that a number of Invest NI reviews had been identified as 'below the line' to provide the Invest NI Board Audit Committee with assurance that it would not impact upon the ability of the HIA to provide an overall opinion if these reviews were not commenced/progressed in 2013/14.
54. The NITB mid-year review resulted in no revisions to the audit coverage. However, additional days have been allocated to reviews of TDS and Procurement.
55. Elaine reported that IAS currently has one vacancy at SO Auditor level but there is budget cover in place for a staff substitution contract. The Committee indicated that it was content with the resource position.
56. The Chairman reported that the Invest NI Board Audit Committee was complimentary about the work undertaken and planned by IAS at the recent meeting he attended. Eugene Rooney confirmed the positive mood of the Invest NI Board Audit Committee and David Sterling endorsed this.
57. Elaine outlined progress made against DETI audit plans. She confirmed that since the last meeting of the Departmental Audit Committee two DETI reports have issued in final form, with satisfactory opinions.
58. Elaine referred to the DETI Recommendations Register in which 70 recommendations had been brought forward with two being added during the period. She went on to say that during the period IAS had confirmed that 35 recommendations had been implemented leaving 37 to be carried forward. 25 of the 37 recommendations are

older than six months; 5 of the 25 recommendations had not yet been implemented and information from management was awaited in respect of the other 20. Elaine confirmed that there is no build up of recommendations in any particular area of the Department but that she would provide David Sterling with a report providing more detail on outstanding recommendations.

59. In relation to Invest NI, Elaine Dolan reported that four reports relating to the 2012-13 year have been finalised, all with satisfactory opinions. Two reports for 2013-14 have been issued: one with a satisfactory opinion; one with a substantial opinion.
60. The Invest NI Recommendations Register shows 90 outstanding recommendations at 4 December. The majority of recommendations are priority 3 issues which relate to low risk areas. Invest NI management have indicated that 49 of the 90 recommendations have been implemented and are ready for follow up testing by IAS.
61. Two final 2013-14 reports have issued for NITB – both contain satisfactory opinions. NITB's Recommendations Register contains 27 outstanding recommendations as at 4 December. Three of the four priority 1 recommendations relate to procurement; the other priority 1 recommendation relates to NITB salary scales.
62. Elaine concluded by confirming that no new limited opinions had been issued in the period covered by the report.

Action: Elaine Dolan to provide David Sterling with details of outstanding DETI IAS recommendations.

IAS INTERNAL QUALITY ASSESSMENT

63. Elaine Dolan outlined the work undertaken by IAS on its Internal Quality Assessment which complements periodic External Quality Assessments.
64. Elaine confirmed that DETI's Internal Audit Service generally conforms with the Public Sector Internal Audit Standards (PSIAS) and relevant statements of good practice. A number of questionnaires had issued as part of the process and these had been for the most part positive. No high priority actions had been identified. The Chairman suggested that there may be merit in Elaine contacting other Heads of Internal Audit in relation to the issues raised in some responses to questionnaires relating to assessing the work of internal audit in a qualitative as well as a quantitative manner.

65. Elaine indicated that she would update the Committee on progress in due course.

Action: Elaine Dolan to provide the Committee with a further report when actions have been implemented.

RISK MANAGEMENT AND SIX MONTHLY ASSURANCE STATEMENTS

66. Terry Coyne reported that the N+2 targets had been met which demonstrated the efficacy of the risk mitigation measures that had been put in place and monitored by the Departmental Board.

67. Terry Coyne went on to refer to the issues relating to policy and legislative development in Minerals and Petroleum Branch. Work is currently ongoing to secure an additional Deputy Principal for the Branch; however, further resources may be needed depending on the extent of the work required.

68. Substantial progress has been made on the implementation of EU Directives by Energy Division. The Chairman noted that a resource for Minerals and Petroleum Branch was being pursued and went on to note the progress that has been made on the management of risk.

69. The Chairman reported that he had attended a meeting of the Invest NI Board Audit Committee at which a substantive discussion had taken place around risk management. Invest NI had a member of staff whose primary responsibility was for risk management. Terry Coyne confirmed that he had seen Invest NI recent draft Risk Management Strategy and Policy. He would take these into consideration in connection with his own review of DETI's risk management policy.

70. The Departmental Audit Committee and NIAO noted the report and the Corporate Risk Register.

UPDATES FROM NDPBs AND CROSS BORDER BODIES

71. Iain McFarlane outlined the main issues arising from the governance updates provided by NDPBs and Cross Border Bodies. Invest NI had accepted or partially accepted all the points raised in the Report to Those Charged with Governance for 2012-13. Implementation of agreed recommendations in the PAC Report on Invest NI Performance is proceeding. Invest NI is currently pursuing a potential fraud with PSNI.

72. No major issues worth drawing the Audit Committee's attention to have arisen in HSENI, the Consumer Council and Tourism Ireland Ltd.

73. The accounts of InterTradelreland (ITI) for the year ended 31 December 2012 have been signed and are unqualified. ITI has referred to issues around foreign exchange and reclassification as an NDPB. The Chairman queried a reference to the word “relevance” in the significant risks section of ITI’s update. Iain McFarlane will obtain clarification on the meaning of this reference.

Action: Iain McFarlane to obtain clarification from InterTradelreland on the reference to “relevance” in the risk section of its governance update.

PRESBYTERIAN MUTUAL SOCIETY (PMS)

74. Trevor Cooper informed the Committee that the £175 million loan and £50 million financial assistance (£25 million from the NI Executive and £25 million from HM Treasury) had enabled investors to receive no less than 80% of their original investment in the Society.

75. The Department’s financial advisers have recently produced a draft assessment of the assumptions used by the supervisors’ in relation to the supervisors’ 10 Year Forecast. A meeting has been scheduled with the advisers to discuss the report with a view to finalisation.

76. A project board has been established within DETI chaired by Eugene Rooney and comprising Trevor Cooper, Jackie Kerr and Iain McFarlane. Business Regulation Division (BRD) reports to the project board and is responsible for the internal management of PMS with input being provided by Finance Division as appropriate. Major decisions are made by the project board which meets at least quarterly or in response to emerging issues.

77. Bill McGinnis asked about the key issues that have arisen. In response, Trevor Cooper indicated that there were no major issues – the most common issue related to optimum time to dispose of assets from the Society’s property portfolio – the supervisors are required to approach the Department for approval each time they wish to dispose of an asset.

78. Trevor confirmed that the supervisors provide quarterly forecasts and management accounts, annual audited accounts, half yearly unaudited accounts and business plans.

79. Bill McGinnis noted that the administration of PMS was now into its third year and asked for a view on whether the loan would be fully repaid. Trevor Cooper confirmed that a 10 year revised updated forecast had been received from the supervisors and that the assumptions used, based on advice from the Department’s insolvency advisers, were considered to be a worst case scenario, for example, tenants not renewing their leases at the end of rental

periods. The Department's advisors have highlighted that it is still early in terms of forecasting repayment and that there are a number of more likely scenarios that mean that no provision should be made at this time in relation to repayment of the full amount.

80. Bill McGinnis thanked Trevor for updating the Committee and agreed that it was still too early to accurately predict future events. Eugene Rooney informed the Committee that the Department aimed to ensure that it was kept as fully informed as possible.

81. Trevor Cooper undertook to prepare a paper setting out the position and provide it to the Committee before its next meeting. Colette Kane asked for sight of the paper at the earliest possible juncture.

Action: Trevor Cooper to provide the Committee with a Paper before the next meeting of the Audit Committee.

NIAO REPORTS

82. Colette Kane informed the Committee that the Consumer Council's 2012-13 accounts had been signed by the C&AG and that they were unqualified. However, they included an "emphasis of matter" as a result of the ongoing review of the Consumer Council but this did not affect the C&AG's opinion.

83. Colette went on to confirm that the Insolvency Account had been signed and was unqualified. The remaining DETI account was the Minerals and Petroleum Account. This was not signed yet but no major issues had been identified.

84. David Murdie informed the Committee that NIAO fieldwork had commenced on the review of the Bytel telecommunications project. Because this was a cross border project, NIAO and its Republic of Ireland counterpart have been working collaboratively with the aim of producing a single report detailing the findings of the review. Interaction is taking place with DETI, DCENR and SEUPB.

85. The aim is to produce a draft report in the New Year.

INVESTIGATIONS

86. Iain McFarlane referred to the Bytel telecommunications project. He confirmed that a response would shortly be made to NIAO's request for information – however, there had been a need to consult with other stakeholders.

87. The Chairman requested that written progress summaries should, in future, be provided to the Committee where an investigation is ongoing, subject to considerations of confidentiality.

Action: Written reports summarising progress should be provided for future investigations, subject to considerations of confidentiality.

GUIDANCE ISSUED SINCE LAST MEETING

88. Terry Coyne informed the Committee that no governance related guidance had issued since the last meeting.

THEFT / FRAUD NOTIFICATIONS

89. Elaine Dolan confirmed that there were no fraud notifications since the last meeting.

NATIONAL FRAUD INITIATIVE

90. Terry Coyne confirmed that the investigation of recommended data matches was complete and that no issues had been identified.

FORWARD WORK PLAN / INDICATIVE AGENDAS

91. The Committee considered and noted the indicative agenda for the next meeting on 5 March 2014.

ANY OTHER BUSINESS

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