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Permanent Secretary
Department of Enterprise, Trade and Investment
Netherleigh
Massey Avenue
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25 February 2014

Dear David

Department of Enterprise, Trade and Investment Audit Strategy 2013-14

Please find enclosed the strategy for the audit of Department of Enterprise, Trade and Investment's 2013-14 accounts.

The strategy is intended to fulfil two functions:

- to inform you of our audit approach; and
- to provide you with details pertaining to the preparation of the financial statements and conduct of the audit.

The strategy comprises the main body and four annexes. The main body gives a narrative summary of the background to the financial statements in terms of required format, an overview of our audit approach and the specific risks identified as part of the audit of DETI's accounts. It explains the concept of materiality and how it impacts upon our audit.

Annex 1 provides details on the scope of the audit, respective responsibilities and other matters;

Annex 2 relates to Value for Money work;

Annex 3 outlines NIAO's quality standards and independence; and

Annex 4 a copy of the NIAO Governance Statement Fact Sheet.

Office of the Comptroller and Auditor General for Northern Ireland
Promoting accountability and best use of public money
Telephone (028) 9025 1100 GIN 440

I would appreciate if this strategy could be included on the agenda for discussion at the next Audit Committee meeting.

Yours sincerely



COLETTE KANE
Director



Northern Ireland Audit Office

Our purpose ...

Promoting better use of public money, through independent professional scrutiny, underpinned by our commitment to:

- Integrity
- Equality
- Openness
- Innovation

To make a difference for the people of Northern Ireland.

The Comptroller and Auditor General, Kieran Donnelly, is an Officer of the Northern Ireland Assembly. He is the Head of the Northern Ireland Audit Office, which employs around 135 staff. He, and the Northern Ireland Audit Office, are totally independent of Government. He certifies the accounts of all Government Departments and a wide range of other public sector bodies; and he has statutory authority to report to the Northern Ireland Assembly on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

For further information please contact:

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Department of Enterprise Trade and Investment AUDIT OF 2013-2014 FINANCIAL STATEMENTS

AUDIT STRATEGY

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1 Introduction

- 1.1. The Comptroller and Auditor General (C&AG) is appointed by Government as the independent external auditor of the financial statements of the Department of Enterprise, Trade and Investment through the Government Resources and Accounts Act (NI) 2001. Our audit is designed to allow the C&AG to give an opinion on whether:
- the financial statements are 'true and fair';
 - the underlying transactions are in accordance with the Northern Ireland Assembly's intentions and any other relevant authorities (known as 'regularity');
 - the Remuneration Report has been properly prepared;
 - the information given in certain sections of the Annual Report is consistent with the financial statements; and
 - a number of further matters on which he reports by exception, including whether or not adequate accounting records have been maintained or if the Governance Statement does not reflect Department of Finance and Personnel guidance.
- 1.2. The purpose of this document is to highlight to the Accounting Officer and Audit Committee of the Department of Enterprise, Trade and Investment:
- how we, on behalf of the C&AG, plan to audit the financial statements for the year ending 31st March 2014, including how we will be addressing significant risks of material misstatement to transactions and balances;
 - matters of interest and developments in financial reporting and legislation;
 - the planned timetable, fees and audit team;
 - matters which we are required to communicate to you under International Standards on Auditing (UK and Ireland) (ISAs), including the scope of the audit, our respective responsibilities, and how we maintain independence and objectivity (Annex 1); and
 - Value for Money work undertaken by the C&AG that is relevant to the Department of Enterprise, Trade and Investment (Annex 2).

Actions for those charged with governance

- 1.3. Those charged with governance are invited to consider and discuss:
- whether our assessment of the potential risks of material misstatement to the financial statements is complete;
 - whether management's responses to these risks are adequate;
 - our proposed audit plan to address these risks; and
 - whether the financial statements could be materially misstated due to fraud and communicate any areas of concern to management and the audit team.
- 1.4. Those charged with governance, in order to comply with best practice, should also review the accounting policies adopted by the organisation and consider whether they remain appropriate to the organisation's circumstances and comply with the Government Financial Reporting Manual (FRM), relevant guidance issued by the *Department of Finance and Personnel (DFP)* and principles of *Managing Public Money Northern Ireland*.

2 Our Audit approach

- 2.1. Our approach to the audit of financial statements uses a range of techniques to obtain audit evidence and assurance and is based on a thorough understanding of the business.
- 2.2. This understanding allows us to develop an audit strategy which focuses on addressing specific risks whilst providing an acceptable level of assurance across the financial statements as a whole.

Outline of our general audit approach

- 2.3. The NIAO audit approach is risk-based, informed by a good understanding of the operations of the Department of Enterprise, Trade and Investment and an assessment of the risks associated with the financial statements and the regularity of underlying transactions.
- 2.4. Our initial assessment of the Department of Enterprise, Trade and Investment operations and control environment has identified areas of significant risk which require a specific audit response. These are listed below in section 3. Against each risk we have provided a preliminary audit response. On completion of our audit we will provide a further update on each of these risks in our Report to those charged with Governance.
- 2.5. For all significant audit areas, we will use a variety of audit techniques, including analytical procedures and sampling of transactions.
- 2.6. As in previous years, we expect the Department of Enterprise, Trade and Investment to produce a full set of 9-month accounts in advance of our interim visit in February. As well as undertaking substantive testing on the 9-month accounts, this will enable us to consider the disclosure notes that support the accounts and provide advice as to what will be required in the year-end financial statements.
- 2.7. The prior year audit identified no significant misstatements or disclosure deficiencies.
- 2.8. We will review other accounting systems and management controls operated by the Department of Enterprise, Trade and Investment only to the extent we consider necessary for the effective performance of the audit. As a result, our review may not detect all weaknesses that exist or all improvements that could be made. Where we do uncover any significant deficiency weaknesses we will report these to you, with our recommendations for improvements.

Reliance on others

- 2.9. We continue to liaise closely with Internal Audit and seek to take assurance from their work where their objectives cover areas of joint interest. We also carry out a review of the Internal Audit structure and function in accordance with ISA 610: *Using the work of internal auditors*.
- 2.10. We will also continue to seek to place reliance in the following areas from a number of sources, both within NIAO and external to NIAO:-
 - Payroll – Assurance on HRConnect from DFP Internal Audit & NIAO IT Branch;
 - IT Systems which impact on the Financial Statements: Account NI, Records NI, IT Assist, Network NI – we will seek assurance from NIAO IT Branch;
 - Land & Buildings – we will rely on the valuation provided by the Land & Property Services (LPS); and
 - Provisions – we will rely on the actuarial valuation of the Harland & Wolff PLC provision.

Materiality

- 2.11. The concept of materiality recognises that financial statements are rarely absolutely correct, and that an audit is designed to provide reasonable, rather than absolute, assurance that the financial statements are free from material misstatement.

- 2.12. Materiality is an expression of the relative significance or importance of a particular matter in the context of the financial statements as a whole. A matter is material if its omission or misstatement would reasonably influence the decisions of the addressee of the auditor's report. It provides auditors with a benchmark for determining the tolerable level of error and, taken together with our analysis of risk, determines the extent and direction of our audit work.
- 2.13. The assessment of what is material is a matter of the auditors professional judgement and includes consideration of both the amount and the nature of the misstatement. In determining materiality, we consider a range of measures relevant to the account. The effect of this may be that items are regarded as material even though their monetary value is low.
- 2.14. The level of error which we have identified as clearly trivial has been set at £35k. We will report to you all errors in the financial statements above this amount.

3 Significant Risks

Risks of material misstatement in the financial statements

- 3.1. As part of our work to develop the audit plan, we have identified the following significant risks of material misstatement. A significant risk is an identified and assessed risk of material misstatement that, in the auditor's judgement, requires special audit consideration.

Significant Risk	Audit Response
<p>Harland & Wolff Provision</p> <p>The Department discloses in the Statement of Financial Position a significant provision in relation to the Harland & Wolff liabilities arising from the collapse of the group's insurer. The liabilities relate mainly to asbestos related illnesses of former employees of Harland & Wolff.</p> <p>We understand that a new actuarial valuation of the provision has been commissioned for 2013-14 accounts with due consideration given to the underlying assumptions, in particular the discount rate.</p> <p>There is a risk that this provision could be materially misstated.</p>	<p>We will review the continuing appropriateness and valuation of the Harland and Wolff provision disclosed in the financial statements with particular emphasis on:</p> <ul style="list-style-type: none"> • Detailed review of the new actuarial valuation and • Emerging trends in relation to Pleural Plaque claims in NI and the associated settlements.
<p>Financial Assets</p> <p>The Department includes a significant financial asset in relation to the monies due from the Presbyterian Mutual Society Limited for a fixed rate loan of £175 million. The collectability of the loan is however dependent on the current market value of commercial properties which provide collateral for the loan.</p> <p>We understand that during the course of the financial year there have been changes to the sequencing of repayments, although expert advice to DETI continues to suggest there is no indication of default on the loan. Nonetheless there is a risk that the value of the Financial Asset could be misstated.</p>	<p>We will perform a detailed review of the administrator's report and the independent advice received by DETI on this report.</p> <p>We will review the PMS Project Board minutes and associated papers.</p> <p>We will also consider the need for any bad debt provision against the loan based upon the most current information available.</p>

- 3.2. Under ISA 240, there is a presumed significant risk of material misstatement owing to fraud arising from management override of controls. We will address this risk through our testing of journals, estimates and through a review of any significant or unusual transactions in the year.

- 3.3. There is also a presumed risk of fraud in revenue recognition, albeit rebuttable. We do not believe the risk of fraud in revenue recognition is material to the financial statements

Other risk factors

- 3.4. In addition to the significant risks we have identified above, we have also identified a number of other risk factors. We do not consider these to represent a significant risk of material misstatement in the financial statements but are matters which we will continue to monitor and respond to as appropriate throughout the audit. These areas include:
- Ministerial Direction – a ministerial direction for £4.6m was issued in year to facilitate funding of a local Print and Packaging company. We will ascertain why there was a need for a Ministerial Direction and what procedures DETI put in place to oversee the out-workings of the Ministerial Direction by Invest NI.
 - EU Funding – we will review the Audit Authority Reports relating to EU programmes and substantively test a sample of grants awarded to ensure compliance with scheme regulations. We will consider previously funded projects deemed ineligible and the potential for any clawback.

4 Further matters of interest

- 4.1. There have been some changes to financial reporting guidance issued by the Department of Finance and Personnel but we would draw your attention specifically to the changes relevant to the format and content of the Annual Report. Refer to FR&M chapter 5 for details.

5 Audit timetable, staffing and fees

Timetable and fees

5.1. DETI is required to comply with the Department of Finance and Personnel's timetable for producing and laying audited accounts.

5.2. Key target dates are:

Event	Date Agreed/ (Target Date)
Production of Interim accounts reconciled to the trial balance	By 14 th February 2014
Production of Final Accounts reconciled to the trial balance	By 23 rd May 2014
Audit Team to Commence Final Audit Work	By 23 rd May 2014
Draft Report to those Charged with Governance	By 24 th June 2014
Departmental Audit Committee	On 25 th June 2014
Certification of Accounts	By 1 st July 2014

5.3. The notional audit fee for the DETI account is £52,000.

5.4. Completion of our audit in line with the timetable and fee is dependent upon:

- DETI delivering on the agreed dates a complete Annual Report and Accounts of sufficient quality that have been subject to appropriate internal review.
- DETI delivering good quality supporting documentation and evidence, within the agreed timetable; and
- Appropriate client staff being available during the audit.

Staffing

5.5. The following NIAO staff will be involved in the audit:

TITLE	NAME	RESPONSIBILITIES
Director	Colette Kane	Overall responsibility for the conduct of the audit, for ensuring an appropriate opinion is given, liaison with DETI and its Audit Committee and handling any complaints.
Audit Manager	Christine Burns	Day to day management of the audit and audit staff.
Lead Auditor	John Tracey	Planning of the audit to NIAO standards. Leading fieldwork and completion of the audit to NIAO standards.

Annex 1: Scope of the audit, respective responsibilities and other matters

Scope of the audit

1. Our audit of the financial statements will be carried out in accordance with International Standards on Auditing (UK & Ireland) (ISAs) issued by the Financial Reporting Council (FRC), taking into account the Practice Note 10 (Revised): *Audit of Financial Statements in Public Sector Bodies in the United Kingdom (Revised)*. These standards represent best practice in auditing and aim to promote uniformity of practice throughout the world, thereby increasing public confidence in the audit process.
2. Our audit procedures are designed primarily to provide an opinion on whether the financial statements provide a true and fair view of the position at 31st March 2014 and the activities reported for the year then ended, that the expenditure and income have been applied to the purposes intended by the Northern Ireland Assembly and that the transactions conform to the authorities which govern them ('regularity').
3. In addition we have a professional responsibility to report if the financial statements do not comply in any material respect with the Government Financial Reporting Manual (FRM) and relevant guidance issued by the *Department of Finance and Personnel (DFP)*. We therefore review the quality, effectiveness and transparency of the accounting practices and financial reporting. This includes consideration of the appropriateness of accounting policies, accounting estimates and judgements and the adequacy of disclosures affected by unusual or non-recurring transactions recognised during the period.
4. As part of our audit we will review the information contained in the Annual Report. Certain information given in the Annual Report and part of the Remuneration Report are subject to our audit opinion. Other information in the Annual report is reviewed only to the extent that we confirm that it is consistent with the financial statements and our understanding of the business. We also review the overall balance and clarity of information contained in the Annual Report.

Governance Statement

5. We will also review the Governance Statement to ensure it has been prepared in accordance with Department of Finance and Personnel guidance, including *Managing Public Money Northern Ireland* and that the statement fairly reflects our understanding of the state of internal control systems within the entity during the year.
6. The Governance Statement provides an opportunity for the Accounting Officer and the Board to review their approach to governance reporting. The Governance Statement should be assembled from work throughout the year to gain assurance about the organisation's performance and risk profile, its responses to the identified and emerging risks and its success in tackling them. Board members, with the support of the Audit Committee, should evaluate the quality of the systems of internal control and governance, assess the risks facing the organisation, and advise on any significant omissions from the statement which may necessitate further disclosure. To assist those responsible for producing Governance Statements we have prepared a fact sheet highlighting key messages and good practice. This is included at Annex 4 and is also available from our website at http://www.niauditoffice.gov.uk/index/publications/governance_statement_fact_sheet.pdf

Respective Responsibilities

7. In line with Auditing Standards we are required to agree the respective responsibilities of the C&AG, the DETI's Accounting Officer and the NIAO. These responsibilities are set out in the Letter of Understanding of 21st October 2010.
8. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities.

Annex 1: Scope of the audit, respective responsibilities and other matters

Preparation of the financial statements

9. The primary responsibility for the preparation of the financial statements and the regularity of financial transactions lies with the Department.
10. The financial statements should be prepared in accordance with the Financial Reporting Manual (FReM) issued by the Department of Finance & Personnel (DFP).

Supporting Records

11. All relevant general ledger transactions should be processed to allow trial balances to be made available for audit purposes with the draft financial statements. Any amendments made to the trial balances after the close of books should be discussed with NIAO staff and supported by an approved journal and any other underlying documentation. Further adjustments may be required as a result of our audit findings.
12. We will require access to schedules and documentation which support the figures and disclosures within the financial statements, and we would expect the draft account to have been subject to appropriate management review prior to submission for audit. A list summarising the key items of audit information required and the dates that we need them for will be agreed with the finance team prior to each audit visit.
13. We will verify that the submitted financial statements and their supporting schedules have been subject to a detailed management review. We recommend that the financial statements are reviewed against the NIAO 2013-14 Disclosure Guide and the NIAO 2013-14 Hot Review Checklist prior to submission for audit. These will be provided to the finance team upon request.

Fraud

14. The primary responsibility for the detection of fraud rests with management. Their role in the detection of fraud is an extension of their role in preventing fraudulent activity. The Accounting Officer is responsible for establishing a sound system of internal control designed to support the achievement of departmental policies, aims and objectives and to manage the risks facing the organisation; this includes the risk of fraud.
15. Our audit is designed to provide reasonable assurance that the financial statements (as a whole) are free from material misstatement, whether caused by fraud or error. We are not responsible for preventing fraud or corruption, although our audit may serve to act as a deterrent.
16. We are required to make inquiries of those charged with governance in respect of your oversight responsibility for:
 - Management's assessment of the risk that the financial statements may be materially misstated owing to fraud, including the nature, extent and frequency of such assessments;
 - Management's process for identifying and responding to the risks of fraud, including any specific risks of fraud that management has identified or that has been brought to its attention;
 - Management's communication to the Audit Committee (and others charged with governance) on its processes for identifying and responding to the risks of fraud;
 - Management's communication, if any, to its employees on its views about business practices and ethical behaviour; and
 - Whether management has any knowledge of any actual, suspected or alleged fraud.

Annex 1: Scope of the audit, respective responsibilities and other matters

Regularity and propriety

17. Our audit of regularity will be conducted in accordance with the Financial Reporting Council Practice Note 10 (Revised): *Audit of financial statements of public sector entities in the United Kingdom (Revised)*. We test that the transactions entered into by the organisation comply with the regularity framework within which the DETI operates. Our approach to completing the regularity audit will be to obtain a sufficient understanding of the framework under which DETI operates and to test compliance.
18. This means gaining assurance that DETI's income and expenditure transactions are in accordance with appropriate authorities, including the statutory framework for the organisation, Managing Public Money Northern Ireland and other requirements of the Northern Ireland Assembly and the Department of Finance and Personnel.
19. We will also have regard to the concept of propriety in conducting our audit, which is concerned with the Northern Ireland Assembly's intention as to the way in which public business should be conducted, concerning the avoidance of waste and extravagance.

Communication of audit matters

20. ISA 260: *Communication with those charged with governance* provides guidance for communication during the audit cycle.
21. The principles of this ISA are embodied in the NIAO audit approach. These include the provision of this strategy document, wash-up meetings, after audit visits to communicate findings, and the provision of a Report to those Charged with Governance at the completion of the audit setting out observations and recommendations on significant matters which have arisen during the course of the audit.
22. In addition, the ISA states that '*the auditor shall communicate with those charged with governance significant difficulties, if any, encountered during the audit*'. Significant difficulties would include delays in management providing required information, the unavailability of expected information and restrictions imposed on the auditor by management. We will consider if any issues we have in performing our audit represents significant difficulties. If we encounter significant difficulties we must report these to those charged with governance, documenting how they have been resolved.
23. ISA 265: *Communicating deficiencies in internal control to those charged with governance and management* places a responsibility on the auditor to communicate appropriately to those charged with governance and management deficiencies in internal control that the auditor has identified in an audit of financial statements. We will report significant deficiencies in writing to those charged with governance and management.

Whole of Government Accounts

24. DETI is required to prepare Whole of Government Accounts consolidation schedules for the year ending 31st March 2014 and submit them to the Department of Finance and Personnel. The consolidation schedules should be prepared in accordance with the instructions issued by the Department of Finance and Personnel and should include Invest NI and the NI Tourist Board within the group, eliminating any transactions and balances between DETI and the NDPBs.
25. We are responsible for auditing the consolidation schedules, but the materiality threshold for audit increased substantially in 2012-13 such that DETI's data collection tool (DCT) was no longer subject to audit. We expect that the WGA materiality will remain unchanged for 2013-14 and therefore no audit will be required.

Annex 1: Scope of the audit, respective responsibilities and other matters

Personal Data

26. The processing of personal data for audit purposes will be completed in accordance with the requirements of the Data Protection Act 1998. We have procedures in place to ensure that the security of personal data is safeguarded at all stages of the audit process. We will notify you in the Executive Summary of the Report to those charged with Governance of action taken to return, retain or destroy any personal data processed for audit purposes.

Assembly of certified audit files

27. International Standard on Quality Control (UK and Ireland) 1 (ISQC1): *Quality control for firms that perform audits* provides guidance on the assembly of completed audit files. We are dedicated to achieving quality throughout our audit process. ISQC1 suggests that 60 days is sufficient time to assemble the files and also states that firms should have "policies and procedures designed to maintain the confidentiality, safe custody, integrity, accessibility and retrievability of engagement documentation".
28. As part of our office procedures we operate a structured approach to storing the completed audit files within 60 days of certification thereby demonstrating compliance with ISQC1 requirements (which are echoed in ISA 230: *Audit documentation*). Therefore we will request that management responses to our Report to those charged with Governance are agreed within 60 days of certification.

Independence

29. The NIAO complies with relevant ethical requirements regarding independence and has developed important safeguards and procedures in order to ensure our independence and objectivity. These are set out in Annex 3 below: *NIAO quality standards and independence*. We will reconfirm our independence and objectivity for the year ended 31st March 2014 in our Report to those Charged with Governance.

Annex 2: Value for Money

Relevant Value for Money (VFM) Reports over last 5 years

1. While the financial audit team will be mindful of value for money throughout the audit, within NIAO the Value for Money Division undertake VFM studies across the public sector. VFM studies relevant to The Department of Enterprise, Trade and Investment published in the last five years are as follows:
 - Invest NI: a Performance Review (27 March 2012)
 - Northern Ireland Tourist Board - Review of the Signature Projects (13 December 2011)
 - DETI: The Bioscience and Technology Institute (29 November 2011)
 - CORE - A Case Study in the Management and Control of a Local Economic Development Initiative (27 October 2010)
 - Review of the Health and Safety Executive for NI (8 September 2010)
 - Campsie Office Accommodation and Synergy e-Business Incubator(SeBI) (24 March 2010)
 - Review of Assistance to Valence Technology: A Case Study on Inward Investment (25 February 2009)

Current and Planned VFM Activities

2. We are currently undertaking the following VFM study in the Department of Enterprise, Trade and Investment.

Review of the Bytel Project

3. In October 2004, DETI and the Department of Communications, Marine and Natural Resources (DCMNR), as joint implementing agents for the EU Interreg Programme, offered grant assistance to Bytel Networks Ltd for a project to deliver "extreme broadband connectivity linking Belfast, Craigavon, Armagh, Dundalk and Dublin". Between November 2004 and November 2005, Bytel claimed and was paid total grant funding of €4.3 million.
4. In April 2012, following investigations of concerns about the project, SEUPB withdrew the project from the Interreg Programme. The cost of grant funding for the project has been met by the joint implementing agents.
5. Our study will examine
 - the appraisal, monitoring and evaluation of the project
 - the investigation of concerns raised about the project by a whistleblower
 - the outcome of the project; and
 - the current position on the recovery of grant overpayments.

We aim to publish by summer 2014.

6. Proposals for future studies specific to the Department are based on gathering an understanding of the Department's operations and identifying areas where value for money might be at risk. This requires ongoing completion of routine survey work by the VFM audit team and more detailed analysis of specific areas which show potential as future study topics. The VFM audit team will liaise with the Department when carrying out this work.

Other ongoing studies with relevance (of interest) to the Department

7. The following paragraphs provide information about other NIAO VFM examinations which have relevance or will be of interest to the Department:

Annex 2: Value for Money**Future Impact of PFI and Borrowing Commitments**

8. The long-term implications of repaying commitments/borrowings and assessing the impact on the future affordability of Capital Investment programmes was an issue raised in our 2006 report *"Reinvestment and Reform Initiative: Improving Northern Ireland's Public Infrastructure"* . Whilst private sector funding enables government to fund more infrastructure projects today, this is at the cost of long-term contractual commitments.
9. PFI returns to March 2011 indicate that Northern Ireland has substantial future commitments in both Capital Value and Unitary Charges:
 - 44 projects with an estimated Capital value in excess of £2.5billion
 - £1 billion in Unitary Charges paid to date
 - £7.5 billion in Unitary Charges due to be paid over the next 25 years.
10. The Reinvestment and Reform Initiative, announced in May 2002, included a new borrowing power intended to support a very substantial infrastructure investment programme in Northern Ireland. This borrowing is subject to annual limits determined by HM Treasury and at present this limit is £200 million per annum. The Budget envisages full usage of this borrowing facility in each of the four years; and an additional £175m in 2011-12.

The report was published on 14 January 2014.

Annex 3: NIAO quality standards and independence

Audit quality

1. Auditing Standards require that we communicate at least annually with each body we audit on how we maintain our audit quality and our independence.
2. Quality is strongly embedded in the NIAO culture and manifests itself through:
 - Continued Professional Development (CPD) – all professional staff are expected to maintain a level of CPD each year across the range of professional, management and personal effectiveness training and development; and
 - specialist skills – our audit team can call as necessary on the NIAO in-house Audit Policy Branch.
3. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing:
 - all planning decisions and fieldwork are reviewed by NIAO management and directorate;
 - all significant matters are dealt with promptly and will be raised with DETI management as necessary; and
 - progress on the audit is monitored on a continuous basis to ensure that the work is completed efficiently, effectively, to time and within budget. We have well established review procedures to ensure that appropriate audit work is undertaken efficiently and in accordance with International Standards on Auditing.
4. In addition, the NIAO has additional procedures for high risk audits, which include the review of key judgements by an NIAO Director who is fully independent of the audit team.
5. Each year the NIAO executes a programme of post-certification internal Quality Control Reviews. The objective of these reviews is to establish whether sufficient and appropriate evidence has been collected and evaluated and whether the NIAO's financial audits comply with professional standards and internal policies.
6. To seek an external view, the other UK public audit agencies conduct external Quality Control Reviews on a sample of our post-certified audit files. The results of the Quality Control Reviews are regularly brought to the attention of all staff.

Independence policies and safeguards

7. The NIAO is independent of government and differs from other professional audit bodies in that it has additional public service responsibilities.
8. All public sector bodies are required to observe high standards of probity in the management of their affairs, and the Committee on Standards in Public Life has identified seven key principles which should be followed: selflessness; integrity; objectivity; accountability; openness; honesty; and leadership. The combination of professional ethics and public sector principles therefore places the NIAO in a unique position.
9. These principles underpin the work of the NIAO, in particular:
 - Accountability - everything done by those who work in the NIAO must be able to stand the test of assembly scrutiny, public judgements on propriety, and professional codes of conduct;
 - Probity - there should be an absolute standard of honesty and integrity in handling NIAO work and resources; and

Annex 3: NIAO quality standards and independence

- **Objectivity and Impartiality** - The C&AG's independence is secured in statute. This underlines the need for us to be objective and impartial in all our work, including accurate, fair and balanced reporting.
10. We need to apply these values to retain our credibility with the Assembly, audited bodies and other stakeholders in our work and therefore a code of conduct is issued annually for all staff to complete a return confirming that they have complied with its provisions.

Annex 4: Governance Statement Fact Sheet

Fact sheet

Governance Statements

Governance Statements were introduced in 2012-13 for central government bodies in Northern Ireland. This fact sheet details findings from a review of Governance Statements by the Northern Ireland Audit Office and makes recommendations to further enhance the Governance Statements produced in the future.

The Department of Finance and Personnel issued guidance (DAO(DFP) 10/12) requiring central government bodies to prepare a Governance Statement for financial years 2012-13 onwards. The guidance included Annex 3.1 from Managing Public Money NI (MPMNI) which gave more details of the expected content of Governance Statements. However the guidance did not include a template, as the emphasis, in preparing the Governance Statements, was to reflect organisations specific circumstances in respect of governance, risk management and internal control arrangements and how they operate in practice.

In 2013, we considered over 140 Governance Statements as part of our audits of the accounts of departments, agencies and arms length bodies. Our auditors gave advice on the Governance Statements during the audits to assist our audited bodies in adhering to the principles within the guidance.

In producing this fact sheet we focussed our review on all of the Governance Statements produced by central government departments and a number of other bodies. Our review considered how the bodies had met the essential features required by MPMNI (Box 1 refers) as well as examining the process followed in preparing the Governance Statements and also whether the overall aim of the Governance Statement had been achieved.

Best Practice Observed

1. Audited bodies had invested a substantial amount of time preparing for the introduction of the Governance Statements.
2. Audit Committees were involved at an early stage allowing time for review and challenge.
3. The majority of essential features (Box 1) had been included within Governance Statements.
4. Tailored disclosures, ensuring the Governance Statement is specific to the individual circumstances of the Department.
5. The use of diagrams and tables clearly and concisely illustrating the governance framework and attendance records.
6. Good forward planning to ensure evidence to support essential requirements, for example, the assessment of the performance of the Board.
7. The inclusion of significant control issues within arms length bodies by departments, where applicable.

Key Recommendations

1. Governance Statements should be more concise and less repetitive.
2. The focus should be less on the risk management process and more on assessment of risk specific to the organisation and particularly highlight where risks materialised and the actions taken.
3. New risks identified during the financial year should be disclosed and how they were treated.
4. Provide sufficient detail regarding how the Board assessed its performance, what the outcome of the assessment was, and what recommendations for improvement / change were made as a consequence of the assessment.
5. Explicitly comment on the effectiveness of the Board.
6. Compliance with the Corporate Governance Code should include an evaluation of the degree of compliance and any explanations for departures, if applicable.
7. Disclose how the Board knows the quality of the data is acceptable.
8. The Statement should make specific reference to whether there were any significant lapses of security.

Annex 4: Governance Statement Fact Sheet

Looking Forward

2013-14 sees the introduction of the **Corporate Governance in Central Government Departments: Code of Good Practice (NI) 2013** (the Code) which retains the requirement for departments to disclose, within the Governance Statement, whether they comply with the Code or to explain any departures from it. Although the Code was written for departments, agencies and other arms length bodies are encouraged to consider and adopt the practices set out within it.

Organisations should note that the Code requires one additional disclosure within the Governance Statement. This requires the Board to publish, within the Governance Statement, how any identified conflicts of interest and potential conflicts, of Board members have been managed.

Central government bodies have made significant progress in producing Governance Statements in 2012-13. Going forward there are opportunities to build on that progress and to further enhance the Governance Statements for their organisations. NIAO will continue to assist in that process providing advice and guidance where required.

Box 1

Essential features of the governance statement

1. the governance framework of the organisation, including information about the board's committee structure, its attendance records, and the coverage of its work;
2. the board's performance, including its assessment of its own effectiveness;
3. highlights of board committee reports, notably by the audit committee;
4. an account of corporate governance, including the board's assessment of its compliance with the *Corporate Governance Code*, with explanations of any departures;
5. information about the quality of the data used by the board, and why the board finds it acceptable;
6. a record of any ministerial directions given, subject to a public interest test;
7. a risk assessment, including the organisation's risk profile, and how it is managed, including, subject to a public interest test:
 - o any newly identified risk
 - o a summary of any significant lapses of protective security (eg data losses).

Other Useful Guidance

Managing Public Money NI (DFP), Annex 3, A.3.1. *The Governance Statement*:

http://www.dfpni.gov.uk/index/finance/afmd/afmd-key-guidance/afmd-mpmni/a.3.1_governance_statement.pdf

Corporate Governance in Central Government Departments: Code of Good Practice (NI) 2013:

<http://www.dfpni.gov.uk/index/finance/daodfp0613att.pdf>

Fact Sheet: Governance Statements

www.nao.org.uk/governance-statements

This fact sheet is available to download at;

www.niao.gov.uk