

**DRAFT MINUTES OF DEPARTMENTAL AUDIT COMMITTEE
HELD ON 5 MARCH 2014 AT DETI, NETHERLEIGH**

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

Apologies: Neil Gray (NIAO)

Minutes: Rachel Linton (DETI)

PRELIMINARY

1. The Chairman welcomed members and attendees to the Departmental Audit Committee. He informed the Committee that Neil Gray had sent his apologies.

POTENTIAL CONFLICTS OF INTEREST

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

**APPROVAL OF MINUTES OF THE PREVIOUS MEETING ON 4
DECEMBER 2013**

3. The minutes of the 4 December 2013 meeting were approved and adopted.

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

4. The Schedule of Action Points arising from previous meetings of the Departmental Audit Committee was reviewed. The position regarding to outstanding actions is outlined in the following paragraphs.

5. Schedule Item 1 – Terry Coyne reported that consolidated guidance on gifts and hospitality has been drafted. NDPBs are currently being consulted on the draft guidance with the aim of ensuring, as far as is practicable, consistency of approach across the Department and its NDPBs.
6. Schedule Item 3 – Iain McFarlane informed the Committee that the 2013-14 test drilling exercise has commenced. It will also report on the implementation of actions from the 2012-13 test drilling report.
7. Schedule Item 5 – Trevor Cooper confirmed that CPD is considering a draft paper on NITB's Familiarisation Visits. It is hoped that agreement will be reached very shortly. Trevor went on to inform the Committee that he and Iain McFarlane are examining proposals put forward by NITB for a Strategic Partnership Grant Fund. Matters to be taken forward include developing a decision point within the process of consideration as to grant versus procurement as there will still be cases where procurement is the appropriate intervention mechanism for what NITB term Strategic Partnerships. CPD review and DFP approval will be required. In response to a question from Bill McGinnis, Trevor confirmed that some of the payments under the scheme would be for sponsorship of sporting events. Trevor responded to a question from the Chairman by confirming that he is confident that these outstanding matters can be dealt with, but the Strategic Partnership grant would take longer to process to completion than the FAM trips. He also made the point that CPD response times remain an issue throughout the Department and its NDPBs.
8. Schedule Item 6 – Trevor Cooper confirmed that a reminder had issued in relation to Direct Award Contracts.
9. Schedule Item 8 – Elaine Dolan confirmed that implementation of actions arising from the IAS Internal Quality Assessment is ongoing and that she would update the Committee in due course. She informed the Committee that an External Quality Review would be undertaken in May on the services that IAS provides to Invest NI and NITB. Two Grade 7s from GB, one with an IAS background and one with an IA policy background, will undertake the review.
10. Schedule Item 10 – Committee members confirmed that they had received Trevor Cooper's report on the Presbyterian Mutual Society. The Chairman thanked Trevor for providing a comprehensive report and indicated that he took comfort from the structures that have been established within DETI to oversee the workout going forward. The Committee had no additional questions on the paper.

THE EUROPEAN SUSTAINABLE COMPETITIVENESS PROGRAMME (ESCP) 2007/13 – 2013 PROGRAMME OF WORK IN SUPPORT OF THE ANNUAL CONTROL REPORT AND 2014 PROGRAMME OF WORK

11. Jackie Connolly confirmed that the 2013 Annual Control Report (ACR), showing a final projected error rate of 0.67%, had been submitted to the Commission. The Commission has yet to formally confirm its acceptance of the findings. It has asked questions about Invest NI's Business Improvement Agent scheme (and other schemes administered by the same business area in Invest NI) in light of the IAS limited opinion. The European Court of Auditors has also selected the 2013 ACR to review sampling methodologies and the calculation of error rates. The Audit Authority is working with the European Court of Auditors on the matter.
12. In relation to the 2014 programme of work, Jackie Connolly informed the Committee that the European Commission was taking an increased interest in sampling methodology. The Commission and the Audit Authority have agreed that the sample size for 2014 will be approximately £52.5 million, representing 44% of total expenditure. The aim is to complete fieldwork by the end of June.
13. Anthony Harbinson noted that between 2012 and 2013 there was a reduction in the sample size from 74% to 51% but that the projected error rate had increased from 0.41% to 0.67%. Jackie Connolly acknowledged the increase but did not consider that it was indicative of a widespread problem. The overall error rate is low and is well within the 2% tolerance threshold set by the Commission.
14. In response to a question from the Chairman about the contract with Cavanagh Kelly, Jackie Connolly confirmed that the contract was close to agreement for the current year. The sub-contract work for 2015 will be put out to tender later this year.
15. The Committee congratulated Jackie Connolly and her Audit Authority colleagues for the work they have undertaken and noted the reduction in error rate from 4.07% in 2011 to 0.67% today.
16. At this point Jackie Connolly left the meeting.

DETI REPORT TO THOSE CHARGED WITH GOVERNANCE

17. Iain McFarlane informed the Committee that there is one Priority 2 recommendation outstanding from the 2012-13 Report to Those Charged with Governance. This relates to the finalisation of Management Statements and Financial Memorandums (MSFMs) for Invest NI and NITB.
18. The Invest NI MSFM is with Invest NI's senior management for consideration and the NITB MSFM has been sent to DFP. DFP has

made a small number of comments to which the Department will respond.

19. Anthony Harbinson asked if there was an indication of when the MSFMs might be finalised. David Sterling indicated that he was confident that any remaining areas of difference between DETI and Invest NI can be resolved fairly quickly and he hoped that the MSFM could be sent to DFP by the end of March. Trevor Cooper informed the Committee that he believed that it would be possible to gain DFP approval for the NITB MSFM by the end of March.
20. Colette Kane indicated that completion of Invest NI's current review of its existing MSFM with NI-CO was dependent on the revised Invest NI MSFM being finalised.
21. Iain McFarlane confirmed that MSFMs are currently in place for both Invest NI and NITB.

Action: Continue to work towards finalisation of Invest NI and NITB MSFMs.

BTI – PROGRESS ON IMPLEMENTATION OF PAC RECOMMENDATIONS

22. Iain McFarlane updated the Committee on progress made on the implementation of the outstanding recommendations from the BTI PAC report.
23. One recommendation is outstanding. It relates to PSNI's consideration of issues relating to potential fraud. The Department had requested an update at the end of January, but no response has been received. Anthony Harbinson offered to intercede with the PSNI to expedite matters. Iain McFarlane indicated that the PSNI would be given some additional time, but if no response was forthcoming he would consider asking Anthony to engage.

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

24. Elaine Dolan updated the Committee on progress made in the delivery of internal audit plans. Good progress is being made with the DETI audit plan. All reports issued to date have been satisfactory. Elaine informed the Committee that she is considering deferring the audit of Policy to the next financial year as a potential scope had not been identified. IAS has been liaising with the Head of Policy Group in relation to this. Deferral will not impact on the overall audit opinion for DETI. David Sterling stated that policy is a difficult area to audit and there is a wide variation in the approaches taken by NI departments to policy *development*. He confirmed that

a more consistent approach to policy making across government is now being taken in GB.

25. Anthony Harbinson noted that Invest NI is carrying forward 106 recommendations and that Invest NI management has advised that 57 of these recommendations have been implemented and are awaiting IAS follow up. Anthony asked if this created resource pressures for IAS.
26. Elaine Dolan confirmed that Invest NI and IAS share a database of outstanding recommendations which is updated by Invest NI and validated by IAS. Elaine confirmed that the number of recommendations does create resource pressures but that IAS has set some days aside in March to undertake follow up work. The Chairman referred to his recent attendance at a meeting of Invest NI's Board Audit Committee and noted that the Committee was very focussed on the recommendations register. Colette Kane confirmed this and stated that Invest NI's risk manager has assumed responsibility for ensuring that the implementation of IAS recommendations is actively managed.
27. Elaine reported that DETI has made very good progress in implementing IAS recommendations. In the period covered by the report, 18 recommendations have been implemented and two have been added, leaving 21 outstanding. Of the 21 outstanding recommendations, 11 have been outstanding for more than six months. IAS has confirmed that eight of these have yet to be implemented and information is awaited on the other three. Elaine will report the current position to David Sterling, and ultimately to the Departmental Audit Committee, once outstanding information has been obtained.
28. Elaine confirmed that she is content that the 2013-14 IAS plan for Invest NI will be delivered. Invest NI has requested an overall audit opinion from IAS by 14 April 2014.
29. Elaine reported that delivery of the NITB plan is progressing well. All reports finalised to date have satisfactory opinions. The review of procurement has started recently. Elaine confirmed to the Chairman that she considered the findings from recent NITB audits to be positive. Elaine went on to report that NITB has made good progress in implementing previous IAS recommendations. 15 recommendations have been implemented in the period covered by the report with seven being added, leaving a closing balance of 19.
30. Elaine confirmed that the limited opinion in relation to NITB's Walled City Signature Project has been lifted and that she would report the results of the IAS work on procurement to the next meeting of the Committee.
31. In relation to limited opinions in Invest NI, Elaine confirmed that the follow up review of Programme Evaluation is scheduled to commence shortly. Two new limited opinion notifications were

issued in the period covered by the report. The first related to State Aid issues around the Business Improvement Agent programme, where 30 out of 36 projects were administered under an incorrect state aid notification. Invest NI is undertaking urgent remedial action. The second limited opinion related to the outcome an EDO inspection of the Engineering Training Council (ETC). Invest NI has limited exposure as ETC's failure to provide quarterly reports to Invest NI since June 2012 has resulted in Invest NI withholding funding. Elaine also highlighted that the Sponsor Control review of Invest NI in relation to ETC received a satisfactory opinion. Trevor Cooper reaffirmed the position that the limited opinion related to the controls within the body being reviewed and not Invest NI controls which had operated effectively in terms of withholding payments.

32. The Chairman sought views on the setting of business plan targets which aim to have no limited IAS opinions and/or no Priority 1 recommendations. The Chairman suggested that such targets might lead to pressure being exerted on internal audit staff not to issue such opinions or recommendations and might also lead to undue delays in agreeing draft reports.
33. Anthony Harbinson considered that although every organisation should aspire to have no limited opinions or high priority recommendations, it was not appropriate for these aspirations to be included in business plans as targets. He believed that the focus should instead be on taking prompt remedial action where necessary.
34. David Sterling agreed, and considered that although such targets were set with good intentions, they could create perverse incentives, place undue pressure on internal audit staff and result in underlying problems being masked. Both David Sterling and Eugene Rooney noted that Invest NI had proposed a target around the avoidance of limited opinions in its 2014 - 15 draft business plan. David Sterling has raised the matter with Invest NI's Chief Executive. Eugene Rooney confirmed that the matter has also been discussed by Invest NI's Board Audit Committee. NITB has proposed a similar target and David Sterling indicated that the Department will be considering the appropriateness of this type of target during the course of the business planning process.
35. Colette Kane informed the Committee that the issue has been discussed within NIAO and the C&AG considers that this type of target should not be set. David Sterling thanked Colette for this information.
36. Bill McGinnis considered that the setting of such targets did not align wholly with the public sector culture.
37. Elaine Dolan informed that Committee that in her experience the inclusion of this type of target has resulted in a reluctance by management to accept limited opinions and high priority audit recommendations.

38. The Chairman concluded by confirming that he was reassured by the unanimity of views on the subject. On behalf of the Committee he asked David Sterling and his Senior Management team to ensure that targets which aim to avoid limited opinions or priority 1 recommendations do not appear in the business plans of DETI and its non departmental public bodies.

Action: David Sterling and the DETI Senior Management Team to ensure that targets which aim to avoid limited opinions or priority 1 recommendations do not appear in the business plans of DETI and its non departmental public bodies.

PROPOSED INTERNAL AUDIT PLAN 2014-15

39. Elaine Dolan informed the Committee that the DETI plan for 2014-15 is still being drafted and that a meeting with the Head of Insolvency has been arranged to discuss 2014/15 audit coverage in light of the new corporate risk. Elaine undertook to circulate the draft plan before the next meeting of the Departmental Audit Committee.

40. Elaine confirmed that the Invest NI and NITB internal audit plans for 2014-15 have both been endorsed by the respective Audit Committees. The Invest NI plan is broadly in line with the Strategy. A one year interim plan has been developed for NITB and includes a review of familiarisation trips, the Governance Action Plan, the new Strategic Partnership Grant and, at the request of the NITB Audit Committee Chair, board member expenses and hospitality.

41. Anthony Harbinson recommended that the 2014-15 DETI plan be agreed as soon as possible and the Chairman asked for the draft plan to be issued before the next meeting of the Committee.

Action: Elaine Dolan to finalise the draft DETI internal audit plan for 2014-15 and issue to Audit Committee members before the next meeting.

RISK MANAGEMENT

42. Terry Coyne confirmed that the Corporate Risk Register and significant Divisional and NDPB risks had been considered by the Departmental Board at its last meeting on 18 February 2014.

43. Tourism, Telecommunications and GSNI Policy Division has identified significant Divisional risks relating to compliance with the EU Directive on Carbon Capture and Storage, and policy and legislative development. Both risks are also reflected in the Corporate Risk Register, although the Division's assessment of the likelihood of the risks crystallising is higher than that of the Departmental Board. The Departmental Board has asked the Head

of Policy Group to discuss the variance in assessment with the Head of Division and this may result in a reassessment of the likelihood of the risk occurring.

44. A new risk relating to work undertaken by the Insolvency Service on the disqualification of company directors has been included in the Divisional and Corporate Risk Registers. The significant increase in company failures as a result of the recession has resulted in the Insolvency Service prioritising cases for disqualification which has meant that it has been unable to pursue all potential cases. The Insolvency Service is taking remedial action and a paper detailing proposals for addressing the issue is being prepared for the Minister.
45. Invest NI has identified a significant risk in relation to its ability to meet the timetable for the production of its accounts. This is due to Invest NI's acquisition of companies connected to its Bedford Street premises and the need to have their results consolidated with its accounts.
46. Terry Coyne concluded by stating that Divisions have been reminded to include indicative dates for the completion of remedial action in their risk registers.
47. Bill McGinnis sought confirmation that the Insolvency Service was adequately resourced to carry out its duties. David Sterling informed the Committee that there has recently been a change in the Insolvency Service's top management with the appointment of a new Director of Insolvency. The Insolvency Service itself has doubled in size over the last five to six years and there has been a relatively high turnover of key staff.
48. The relatively high turnover of staff is largely explained by the accountancy qualifications undertaken by Insolvency Service staff which enable them to move elsewhere within the civil service or to gain employment in the private sector. Measures to alleviate the situation are currently under consideration. These include outsourcing of work and examining the appropriateness of some of the training undertaken by staff. In response to a question from Bill McGinnis, David Sterling confirmed that apprenticeships were being considered.
49. David Sterling went on to inform the Committee that the Department wishes to avoid a situation where a return to growth means that the Insolvency Service has surplus staff who have to be accommodated elsewhere. He concluded by acknowledging that, despite the challenges and difficulties faced by the Insolvency Service, the staff were committed, energetic, dedicated and had high morale.
50. Eugene Rooney echoed David Sterling's comments and confirmed that the Insolvency Service has good staff about whom external stakeholders are complimentary. However there is a need to address issues relating to training and staff retention.

51. The Chairman pointed to the speed with which the risk had materialised and noted that there was little prior warning of the issues. He confirmed that he agreed with the assessment of the impact and likelihood of the risk and asked if there were any learning points for the future.
52. David Sterling acknowledged the point made by the Chairman. He considered that the self contained nature of the Insolvency Service may have contributed to the lack of prior warning. He indicated that members of the DETI Senior Management Team would be asked to consider if there were issues in their business areas which had the potential to develop into more major problems.
53. Anthony Harbinson stated that in any Department there will be times when a significant issue emerges extremely quickly, but the issues that are “slow-burners” with sudden escalation are more concerning from a management perspective.
54. Colette Kane informed the Committee that NIAO staff had undertaken a horizon scanning exercise to assess the possible impact of future events on audit work. This had been a useful exercise. David Sterling referred to an exercise that the Rivers Agency had undertaken on the effects on Belfast of a tidal surge. The Rivers Agency had identified a number of risks which were well managed when a tidal surge occurred earlier this year.
55. The Chairman concluded by referring to the wide range of actions that are planned to mitigate the Insolvency Service risk. Eugene Rooney confirmed that the risk will remain on the Corporate Risk Register until it is no longer appropriate. The Corporate Risk Register will continue to be considered by the Departmental Board and Departmental Audit Committee at each meeting.
56. The Chairman referred to the risk of Invest NI not being able to meet the timetable for preparation of its accounts as a result of having to consolidate the accounts of companies associated with the acquisition of its Bedford Street Headquarters.
57. Colette Kane confirmed that NIAO is aware of the risk and has concerns about the ability of Invest NI to meet its accounts timetable and the level of understanding that NIAO staff will be able to have of the issues involved in relation to the property companies within the audit timetable given the ongoing work within Invest NI in regard to the companies. NIAO are actively considering these issues.
58. Eugene Rooney confirmed to the Chairman that the issues had been articulated to the Invest NI Board. In response to a question from Bill McGinnis, David Sterling confirmed that Invest NI was receiving external support on issues relating to the consolidation.

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

UPDATES FROM NDPBs AND CROSS BORDER BODIES

60. Iain McFarlane outlined the main issues arising from governance updates provided by NDPBs and Cross Border Bodies.

61. NITB's 2012-13 accounts were unqualified and have been laid in the Assembly. NITB's Report to Those Charged with Governance contained five recommendations all of which have been accepted and are being implemented. NITB has referred to two risks – one relates to long term funding for events and one relates to the performance of the ROI market. Iain indicated that to a large extent both these issues are outside NITB's control.

62. NITB has also referred to the lifting of limited audit opinions on the Walled City Signature Project and Creditor Payments and the commencement of the IAS fieldwork on the procurement audit. In relation to Direct Award Contracts, NITB has acknowledged that in the past it had not recognised or applied the full extent of CPD guidance.

63. Iain McFarlane went on to draw the Committee's attention to significant issues outlined in NITB's Governance Action Plan. The period over which a Grade 7 accountant was seconded from the NICS has come to an end. PWC has prepared a first draft of a financial procedures manual which was shown to the NITB Audit Committee at its meeting on 4 March. CPD and the Department are considering proposals for FAM trips and a Strategic Partnership Grant Fund. A procedures manual is to be prepared for the funds administered under the Tourism Development Scheme.

64. The Chairman informed the Committee that Duncan McCausland provides him with regular verbal updates on progress on the Governance Action Plan.

65. David Sterling informed the Committee that John Hunter is due to complete his report on the review of NITB by the end of March. The report is likely to indicate that there is potential for Invest NI and NITB to work collaboratively in certain areas, for example, handling grant claims.

66. Colette Kane informed the Committee that she is aware that Duncan McCausland is working to ensure that remedial action is progressed and she welcomed his efforts.

67. In relation to Invest NI, Iain McFarlane informed the Committee that actions agreed in the Memorandum of Reply to the PAC report on Invest NI performance are on track for implementation.

68. Invest NI has referred to the risk of meeting the accounts timetable as a result of the acquisition of companies associated with its Bedford Street headquarters building. Invest NI has also drawn attention to the risk of losing governance expertise when seven board members stand down in April 2014. David Sterling informed the Committee that a list of new Board members is currently with the Minister for consideration. Anthony Harbinson indicated that the Department of Justice has started to stagger board appointments to mitigate this risk and David Sterling confirmed that this would also be the practice in DETI.
69. In relation to issues raised in Invest NI's last six monthly assurance statement, Iain McFarlane referred to the limited opinions on Programme Evaluation and the Business Improvement Agent programme. He also referred to the work that is being undertaken to address issues around approvals for an R&D project and for consultancy associated with the acquisition of Invest NI's headquarters building.
70. Invest NI has not reported any issues around EU funding and has confirmed that it met its N+2 target. Invest NI had engaged with the PSNI in relation to a potential fraud but the PSNI considered that there was insufficient evidence to secure a prosecution. If the company attempts to re-engage with Invest NI it will be treated as high risk.
71. Iain reported that no major issues to which the attention of the Audit Committee should be drawn have arisen in HSENI, the Consumer Council and Tourism Ireland Ltd. In response to a question from Bill McGinnis, David Sterling advised that the review of the Consumer Council was now complete.
72. InterTradeIreland (ITI) has referred to issues around funding and relevance. Clarification has been provided on the meaning of the latter. It refers to ITI's need to ensure that it engages with stakeholders so that they are aware of its contribution to the economy of Northern Ireland and the Republic of Ireland.

DAC CHAIRMAN'S MEETING WITH CHAIRS OF NDPBs

73. The Chairman confirmed that the annual meeting has been scheduled for 16 April 2014 and that invitations would issue shortly. He asked members and attendees to inform him if they had any issues that they believed could be usefully discussed. All those present at last year's meeting agreed that it had been a useful exercise.

NIAO AUDIT STRATEGY FOR 2013-14

74. Colette Kane outlined the contents of NIAO's Audit Strategy. She drew attention to the risks associated with Harland and Wolff

provisions and the management of the Presbyterian Mutual Society Loan. Other areas which NIAO will monitor include the issue of a Ministerial Direction during the year and EU issues, including the potential for infraction proceedings.

75. Colette informed the Committee that NIAO would seek to take assurance from the work of DETI's Internal Audit Service and from DFP internal audit opinions on the work of shared service centres.
76. Colette indicated that NIAO had set a threshold of £35,000 as the upper limit for the level of error that was clearly trivial.
77. Colette drew attention to the audit timetable and to the factsheet that NIAO has issued on good practice in Governance Statements. She also drew attention to Annex 2 of the Audit Strategy, which refers to the value for money work being undertaken on Bytel and indicated that NIAO aimed to have a draft report with the Department by the end of April.
78. In response to a question from Iain McFarlane, Colette informed the Committee that NIAO takes account of the work undertaken by CPD in its audits. David Sterling asked Colette if she had any knowledge of a value for money study of renewable energy, which had been mentioned recently at PSG. Colette confirmed that NIAO intends to undertake a cross cutting review of the area for which a number of departments have responsibilities.
79. Terry Coyne confirmed that a draft Governance Statement would be available for consideration by the Committee at its next meeting and that it is on the indicative agenda.

NIAO REPORTS

80. Colette Kane confirmed that the Minerals and Petroleum Accounts have now been signed and that all 2012-13 audits have been completed.

INVESTIGATIONS

81. Iain McFarlane informed the Committee that the Department has written to the PSNI in relation to the Bytel project and a response is awaited. DETI officials are currently working through an extensive list of questions on the project submitted by NIAO. The aim is to respond to NIAO by the end of March or the beginning of April.
82. Elaine Dolan provided details of notifications made to NIAO and DFP on potential suspected frauds involving a grant claim for the Renewable Heat Payment Premium, a cash loss in the Insolvency Service and a claim for costs to Invest NI in relation to a trade visit (referred to in the NDPB updates). She also advised the Committee

on preliminary fact finding work that is being undertaken in response to allegations made to Invest NI.

GUIDANCE ISSUED SINCE LAST MEETING

83. Terry Coyne updated the Committee on guidance issued since its last meeting.

NATIONAL FRAUD INITIATIVE

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

FORWARD WORK PLAN / INDICATIVE AGENDAS

85. The Committee considered and noted the indicative agenda for the next meeting on 28 May 2014.

ANY OTHER BUSINESS

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