

**Minutes of the Audit and Risk Assurance Committee meeting held on Tuesday
13 March 2018 at 2.00pm at the Labour Relations Agency, Gordon Street, Belfast**

Present: Deirdre Fitzpatrick (Chair)
Louise Crilly
Gary McMichael

In attendance: Don Leeson (Director of Corporate Services)
Stacy Bonar (Deloitte)
Wendy Carberry (Department for the Economy)
Brian O'Neill (Northern Ireland Audit Office)

Apologies: Alison Millar
Daire Murphy
Pauline Shepherd
Tom Evans (Chief Executive)
Sarah Lawrence (Board Mentee)
Joanne McGinnis (Board Apprentice)
Rosemary Peters-Gallagher (Moore Stephens)

Members of the Audit and Risk Assurance Committee met 'in-camera' before the meeting formally commenced. The key points from this discussion are recorded at agenda item 8.

The Committee welcomed Wendy Carberry who has taken over as the sponsoring Department's representative at meetings.

Declarations of Interest: no conflicts of interest were declared.

1. Minutes of the Last Meeting

1.1 The minutes of the Audit and Risk Assurance Committee meeting held on 23 January 2018 were agreed as an accurate record (paper ARAC 02-03/18).

2. Matters Arising from the Last Meeting

2.1 There were no matters arising.

3. Chief Executive's Business

- 3.1 The Committee noted that the Chief Executive was unable to attend as he had been called to a meeting of arm's length bodies with DfE's new Permanent Secretary to discuss the budget position for 2018-19. The Director of Corporate Services presented the Chief Executive's update on his behalf.

Budget Update

- 3.2 The Director of Corporate Services reported that the Agency is on track to achieve the financial target set in the Business Plan of spending at least 98% of its budget. The Committee noted that this target will be increased to 99% for 2018-19, in line with DfE expectations, and that the Agency is likely to achieve this for 2017-18.
- 3.3 The Committee noted that the NICS pay award, which applies to the Agency's staff and will be payable from August 2017, has not yet been agreed. This means that estimated pay arrears will be accrued in the accounts for 2017-18.
- 3.4 The Director of Corporate Services reported that the Agency's indicative funding for 2018-19 is the same as the 2017-18 baseline, meaning that pay and price increases will need to be absorbed. The Committee noted that, given the continuing political hiatus, public bodies will again be given a one year budget, which inhibits longer term planning. The Agency's funding is expected to be confirmed following the arm's length bodies' meeting on 13 March 2018 with DfE's Permanent Secretary. The budget will then be prepared for approval at the May 2018 Board meeting.

Action: Director of Corporate Services

Accommodation Update: Rent Review and Lease Expiry

- 3.5 The Director of Corporate Services gave an update on the 2014 Rent Review of the Agency's Headquarters building, for which negotiations are continuing. Land and Property Services (LPS), acting on the Agency's behalf, have sought to gain the Landlord's commitment to an option to extend the lease on the building as part of the Rent Review settlement. Despite initially agreeing to an extension of three years, the Landlord subsequently withdrew this and the outstanding Rent Review has been referred to the Lands Tribunal. The Committee noted that the Agency has instructed LPS to decouple the two issues and settle the Rent Review as soon as possible.

3.6 In the meantime, the Committee noted that on 5 February 2018 the Agency submitted a business case on the accommodation options for its Headquarters when the current lease expires in May 2019. This has passed through DfE's approval processes and is awaiting formal authorisation from the Department of Finance. Once this has been completed, negotiations with the Landlord regarding the lease extension will be resumed.

Action: Chief Executive

Transformation Update

3.7 The Director of Corporate Services reported that staff transfers, and promotions following an internal competition, to fill transformed posts in the new organisational structure are being finalised. A note to staff on progress, which was circulated to staff on 6 March 2018, will be tabled at the March 2018 Board meeting for information.

Action: Chief Executive

4. External Audit Matters

Strategy for the audit of the Annual Report and Accounts for 2017-18

4.1 The NIAO presented the Strategy for the audit of the Agency's Annual Report and Accounts for 2017-18 (paper ARAC 03–03/18).

4.2 The Committee noted that the timetable for the audit, which will be conducted by Moore Stephens on behalf of the NIAO, will differ from that set out in the Strategy. Fieldwork will commence on 14 May; and the audited Annual Report and Accounts, together with the draft Report to those Charged with Governance (RTTCWG), will be presented to the Audit and Risk Assurance Committee on 12 June 2018. The finalised documents will then be presented to the June 2018 Board meeting for approval.

Action: NIAO/Director of Corporate Services

Capitalisation Threshold

4.3 The Director of Corporate Services presented a proposed change in accounting policy to increase the Agency's capitalisation threshold from £250 to £1,000 for IT assets and building adaptations (paper ARAC 04–03/18). The change in accounting policy was agreed and will be reflected in the Annual Report and Accounts for 2017-18.

Action: Director of Corporate Services

5. Internal Audit Matters

Internal Audit Update Report

- 5.1 Deloitte presented the update on Internal Audit activity since the last Committee meeting, which was noted by the Committee.

Internal Audit Report on Core Financial Controls: Budgetary Control and Management Information

- 5.2 Deloitte presented the Internal Audit Report on Core Financial Controls: Budgetary Control and Management Information (paper ARAC 05–03/18).
- 5.3 The Committee noted that only ‘limited assurance’ could be provided on the controls. This was mainly because of an over-reliance on manual input of expenditure data from the accounting system into a budget control spreadsheet and the Management Accounts and the risk of keying errors inherent in this. Furthermore, data in the spreadsheet is overwritten each month making an audit trail difficult, and there is often a discrepancy between expenditure reported each month to DfE and that contained in the Management Accounts.
- 5.4 The Director of Corporate Services welcomed the report. He reported that immediate action had been taken in response to it. The Agency’s Accountant had been commissioned to reconcile the figures in the Sage accounting system with those in the budget control spreadsheet. The Accountant also created a new spreadsheet that links directly to the accounting system and automates the transfer of data from it through to the Management Accounts.
- 5.5 Going forward, the Agency is considering whether to replace the current Sage accounting system with a simpler version and ensure that finance staff are fully trained on its use. Budget profiles and formula within the new budget control spreadsheet will be locked down once the budget has been agreed by the Board and an effective audit trail will be put in place.
- Action: Director of Corporate Services**
- 5.6 The Committee noted that DfE’s expenditure reporting timetable is only one or two days after the month-end and therefore necessarily relies on estimates that are adjusted in the subsequent monitoring return. More up-to-date information is used in the Management Accounts and therefore there may often be a difference in the two sets of expenditure. The Committee agreed that it was important that the Board and senior management receive accurate and current information in the Management Accounts.

- 5.7 The Committee approved the Internal Audit Report and the management response to its recommendations.

Internal Audit Report on Risk Management

- 5.8 Deloitte presented the Internal Audit Report on Risk Management (paper ARAC 06–03/18). Deloitte confirmed that the Agency’s risk management system was working well and gave it ‘satisfactory assurance’ (the highest available under guidelines set out in DAO (DoF) 07/16).
- 5.9 Internal Audit made a number of recommendations for change to the Risk Management Framework, including the need to identify risk owners and to ensure staff awareness of it throughout the Agency.
- 5.10 The Committee approved the Internal Audit Report and the management response to its recommendations. The Committee noted that the recommendations will be incorporated into a revised version of the Risk Management Framework as part of its forthcoming annual review. The revised Framework will be submitted to the May 2018 Board meeting for approval. Awareness raising of this among staff will then follow.

Action: Director of Corporate Services

Internal Audit Report on GDPR Readiness

- 5.11 Deloitte presented the Internal Audit Report on GDPR Readiness (paper ARAC 07–03/18).
- 5.12 The Committee noted that this was an advisory audit and therefore no assurance rating is awarded. It was further noted that the key recommendations are to finalise the Agency’s action plan for GDPR and ensure staff awareness of the new data protection requirements.
- 5.13 The Director of Corporate Services reported that the Agency’s gap analysis suggests that the required actions to ensure GDPR-readiness are relatively straightforward and that these will be addressed before the new legislative requirement come into force in May 2018. He also reported that the Agency is liaising with the NICS’ Centre for Applied Learning which is developing an e-learning package on GDPR – completion of this will be made mandatory for Agency staff when it is available.

Action: Director of Corporate Services

- 5.14 The Committee approved the Internal Audit Report and the management response to its recommendations.

Progress on Internal Audit Recommendations

- 5.15 The Director of Corporate Services presented the progress report on the implementation of Internal Audit recommendations (paper ARAC 08-03/18).
- 5.16 The Committee noted that almost all of the outstanding recommendations have been actioned. Implementation of these actions is the subject of a follow-up review by Internal Audit, which commenced on 12 March 2018. The outcome of this review will be reported to the next Committee meeting.

Action: Deloitte

Internal Audit Plan for 2018–19

- 5.17 Deloitte presented the Internal Audit Plan for 2018–19 (paper ARAC 09-03/18).
- 5.18 Following earlier discussions with the Agency, Deloitte proposed delaying the audit of Early Conciliation until after its anticipated implementation in April 2019 and that this is replaced by an audit in 2018-19 of ICT controls. It was also proposed that the next audit of financial controls should take place later in 2018 to allow time for the new budgetary controls to be embedded.
- 5.19 The Committee approved the Internal Audit Plan for 2018–19.

6. Risk Management

Updated Corporate Risk Register

- 6.1 The Director of Corporate Services presented the Corporate Risk Register, which has been updated following a review of the risks and planned actions to mitigate these conducted by the Senior Management Team (paper ARAC 10–03/18).
- 6.2 The updated Register was noted by the Committee.

Arrangements for a proposed ARAC/SMT workshop to review the Risk Management Framework and develop the Corporate Risk Register for 2018–19

- 6.3 The Committee agreed a proposal by the Director of Corporate Services to hold a workshop involving Committee members and the Chief Executive and Directors to consider changes to the Risk Management Framework and the draft Corporate Risk Register for 2018–19. These will then be finalised for presentation to the May 2018 Board meeting.

- 6.4 The Committee noted that the new wider Senior Management Team, involving Employment Relations Managers, is due to meet formally for the first time on 25 April 2018. A key focus of this meeting will be training for ERMs on risk management and then discussion of the key risks to inform the new Register. Therefore, it would be helpful to schedule the workshop after this date.

Action: Director of Corporate Services

7. Any Other Business

CMRS Phase 2 Procurement

- 7.1 The Director of Corporate Services presented a paper on the procurement process used to appoint a contractor for the further development of the Agency's case management and work flow system (paper ARAC 11-03/18). The procurement route did not involve a standard process of tendering; instead, the contractor was selected from an already established Government framework contract. While this was not a Direct Award Contract, it was brought to the Committee's attention given the value of the contract (£227k) and its difference from the Agency's usual procurement methodology.

- 7.2 The Committee noted the paper.

Direct Award Contracts agreed since the last meeting

- 7.3 The Director of Corporate Services reported that no Direct Award Contracts have been awarded to date in 2017-18.

External Guidance Documents Received– for noting

- 7.4 The Committee noted the list of relevant external guidance documents received by the Agency since the last meeting (paper ARAC 12–03/18). Attention was drawn in particular to guidance issued in respect of GDPR and contracts (PGN 01/18 refers) – standard text contained in the guidance will be used in the Agency's contracts.

8. Record of Any Matters Arising from the In–Camera Session

- 8.1 The Chair reported on the outcome of the Committee's self-assessment against the National Audit Office's checklist for audit committees (paper ARAC 01–03/18). It was noted that the Committee is operating in line with the NAO's guidelines. It was also noted that induction and training needs will be considered when new Board members are appointed, which is expected to be later in 2018.

9. Date of Next Meeting

- 9.1 The next Committee meeting is scheduled for 12 June 2018 (starting with an in-camera session at 2.00pm). The key agenda items will be the Annual Report and Accounts for 2017-18 and draft RTTCWG, Internal Audit's Annual Assurance Statement, and the Committee's draft Annual Report to the Board.