

# DEPARTMENTAL AUDIT AND RISK ASSURANCE COMMITTEE

## ANNUAL REPORT 2015-16

### 1. Introduction

- 1.1 In line with the “Corporate Governance in Central Government Departments: Code of Good Practice NI 2013” (the “Code”) the Department for Regional Development has established an Audit and Risk Assurance Committee, which functions in accordance with the Audit and Risk Assurance Committee Handbook (NI) (the “Handbook”).
- 1.2 This is the annual report of the Committee on its work and the discharge of its responsibilities.

### 2. Terms of Reference

- 2.1 The Terms of Reference is kept under continuous review and formally updated biennially. The last formal review took place in May 2014. It was published on the Department's internet site as an annex to the Corporate Governance Framework document. Draft Terms of Reference for the DfI Audit and Risk Assurance Committee will be brought before the first meeting of the DfI ARAC on 22 June 2016.

### 3. Membership

- 3.1 The “Handbook” recommends that the Committee should comprise at least three “independent and objective” members. The Department adhered to this best practice guidance throughout the year. Both Independent Board Members are members of the Committee (one as Chair). The third independent member of the Committee was appointed from outside the Department.
- 3.2 David Gray was appointed as an Independent Board Member and a member of the Committee on 1 January 2014 (his tenure expires on 31 December 2016). He assumed the role of Chair on 1 January 2015.
- 3.3 Robert Gilmore was appointed as an Independent Board Member and a member of the Committee on 1 January 2015 (his tenure expires on 31 December 2017).

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3.4 Brigitte Worth, Director of Finance in the Department of Finance and Personnel was appointed on 1 April 2013. Her tenure on the DRD ARAC has been extended to 1 July 2016. She has also been appointed to the Dfl ARAC to 1 July 2017. This term can be extended for a further two years if mutually agreed.

3.5 Attendees at Committee meetings included:

- the Permanent Secretary;
- Deputy Secretary for Governance, Policy and Resources;
- Deputy Secretary for TransportNI;
- Director of Finance;
- Director of Water Policy and Shareholder Division (NI Water Sponsor Division);
- Director of Public Transport Services Division (NI Transport Holding Company Sponsor Division);
- the Head of Internal Audit;
- representatives from the Northern Ireland Audit Office (NIAO); and
- representatives from NI Water and NITHC to provide presentations.

#### 4. Secretariat, Meetings and Attendance

4.1 Strategic Planning Branch provided the secretariat functions for the Committee.

4.2 The Committee held **five** meetings relating to Departmental matters during the 2015/16 year. **Annex A** confirms Members' attendance at each meeting.

4.3 Bilateral meetings were held between the Committee Chair and the following during 2015/16 year

- Accounting Officer (May 2016)
- Head of Internal Audit (August 2015).

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- NI Audit Office representatives (November 2015)

### 5. Agenda and Training

- 5.1 A forward work programme was agreed by the Chair and Committee Members in advance of the 2015-16 year. This informed the agenda for each meeting as set by the Chair and secretariat, with input from other members and attendees.
- 5.2 The forward work programme followed the suggested structure in the “Handbook’s” Example Core Work Schedule, tailored to reflect the needs of the Department.
- 5.3 Training opportunities were regularly offered to the Chair and members of the Committee.

### 6. Summary of Work 2015-16

- 6.1 Each meeting considered reports from Internal Audit, External Audit, Finance Division and Departmental Co-ordination Unit, including updates on corporate governance and risk management and a number of other specific issues. In particular, Members received updates, through a series of presentations, on the impact of the Voluntary Exit scheme on the Department and how Funding issues proved to be a key risk for the Department and for both NI Water and NITHC during 2015-16. It was also noted that allocations received by the Department in November 2015 Monitoring, consisting of £5m Capital for Structural Maintenance and £20.3m Non Ring-fenced Resource, averted any potential overspends.
- 6.2 Sponsor Divisions also provided reports to each meeting to update the Committee on relevant issues arising from ALB Board and Audit Committee meetings.

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6.3 Written reports of Committee proceedings were made to the next available Departmental Board meeting, by the Committee Chair, and copied to the Head of Internal Audit and to the NIAO.

### 7. Internal Audit

7.1 This section provides the Committee's opinion on the quality of Internal Audit arrangements. Internal Audit has provided services in terms of:

- assurance over systems in operation;
- consultancy, advice and guidance; and
- fraud investigation.

7.2 The Committee regularly reviews Internal Audit strategies, plans and reports in order to inform its recommendation to the Accounting Officer in terms of the Department's Annual Report and Accounts, including the Governance Statement. During the year the Committee has received reports and information on a number of issues identified through the work of Internal Audit. Members took assurance from the level of Internal Audit engagement in these areas and were content that progress was being made to address the issues of concern.

7.3 In May 2016 the Committee considered the 2015-16 Internal Audit Annual Report and Opinion for DRD and noted the 'Satisfactory' audit opinion provided: *"Overall there is an adequate and effective system of governance, risk management and control. While there is some residual risk identified this should not significantly impact on the achievement of objectives. Some improvements are required to enhance the adequacy and/or effectiveness of governance, risk management and control."*

7.4 Internal Audit is an essential component of governance in the public sector and Internal Audit is required to operate to Public Sector Internal Audit Standards. The Department's Internal Auditors have been suitably

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trained and developed so that all auditors hold the required Government Internal Audit Certificate. All internal audits are led or supervised by internal auditors who hold a Certificate.

7.5 The Committee is satisfied with the Internal Audit arrangements in place.

### 8. External Audit Activity

- 8.1 A qualified audit opinion on regularity and on the financial statements was delivered on the 2014-15 accounts. The Report to Those Charged with Governance (RTTCWG) on the results of the audit of these accounts contained three recommendations (one Priority 1 and two Priority 2). All were accepted and are on target for completion.
- 8.2 Representatives from the NIAO attended meetings of the Committee. The work of External Audit is primarily conducted for the benefit of the Assembly, but is also of significant benefit to the Department. The NIAO engaged with the Committee on discussions relating to key accounting policies and disclosures and updated members on the emerging findings from relevant Financial and Value for Money reports including the Report to those Charged with Governance. The good working relationship between NIAO staff and officials throughout the Department was also recognised.
- 8.3 The Committee is aware that the Department provided evidence to the Public Accounts Committee (PAC) at its meeting on 29 April 2015 with regards to the NIAO's report "[DRD: The effectiveness of Public Transport in Northern Ireland](#)" (published on 21 April 2015).
- 8.4 The PAC published its findings and recommendations on Wednesday 23 September 2015. The Department's Memorandum of Reply (MOR) was published on 27 November 2015. An Accountability Grid to monitor the commitments given in the MOR has been circulated and agreed with DoF. The Accountability Grid will be updated regularly and monitored

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closely to ensure that all commitments are met on a timely basis. The DfI ARAC will be provided with regular updates through the biannual Implementation of Audit Recommendations Report.

8.5 The Committee also had the opportunity to comment on External Audit strategies and was kept apprised of issues relating to Public Accounts Committee Reports.

8.6 This engagement has enabled the Committee to derive a greater level of assurance and to form a more comprehensive opinion on risk management and control within the Department.

### **9. General Long Term Issues**

9.1 Going forward, the Department for Infrastructure ARA Committee will be particularly conscious of the need to monitor the impact of the challenging budget position for 2016-17 throughout the year for DfI.

9.2 The Department will also face a continuing challenge to manage the impact of the NICS Voluntary Exit Scheme and of the changes as a result of the Executive's NICS Restructuring Programme so as to maintain business continuity. It continues to be important that this change is managed with no impact on the Department's control environment.

### **10. Committee Opinion**

10.1 The Committee was satisfied with the comprehensiveness of assurances in meeting the Board and Accounting Officer's assurance needs and the reliability and integrity of those assurances.

10.2 Overall, the Committee considered that the assurance available was sufficient to support the Board and the Accounting Officer in their decision taking and their accountability obligations and that it raised no implications on the overall management of risk.

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10.3 The Committee is content with the level of financial reporting, and that any significant internal control issues have been identified in the Governance Statement.

**11. Compliance with the Audit and Risk Assurance Committee Handbook**

11.1 The Committee reviewed its arrangements with the Handbook and the Terms of Reference of the Committee over the reporting period. While the Committee was largely satisfied that its practices were compliant with the handbook, some relatively minor amendments to the Terms of Reference were required.

11.2 Representatives from Sponsor Divisions attend the Audit Committees of ALBs and provide updates to the Committee as appropriate.

11.3 To help maintain compliance, the Department has produced a “Guide for Members” which summarises the role of the Committee Chair and Members – this is updated annually.

**12. Effectiveness of the Departmental Audit Committee**

12.1 The Committee carried out an annual review of effectiveness in February 2016.

12.2 The review concluded that the Committee continued to operate effectively and received appropriate secretariat support.

**Departmental Audit and Risk Assurance Committee**  
**25 May 2016**

**DEPARTMENT FOR REGIONAL DEVELOPMENT  
DEPARTMENTAL AUDIT AND RISK ASSURANCE COMMITTEE**

**ANNEX A**

**Meetings held during 2015-16 and Members' Attendance**

<b>Date of Meeting</b>	<b>DARAC MEMBER ATTENDANCE</b>		
	<u>David Gray</u>	<u>Robert Gilmore</u>	<u>Brigitte Worth</u>
27 May 2015	✓	✓	✓
25 June 2015	✓	✓	✓
17 September 2015	✓	✓	✓
19 November 2015	✓	✓	✓
18 February 2016	✓	✓	✓
<b><u>Summary:</u></b>	<b>5/5</b>	<b>5/5</b>	<b>5/5</b>