LIBRARIES NI

INTERIM AUDIT AND RISK COMMITTEE

3 JULY 2009

Minutes of a meeting of the Interim Audit and Risk Committee held in Lisburn City Library on Friday 3 July 2009 at 2.00 pm.

PRESENT

Mr Alastair McDowell
Dr David Elliott
Ms Jane Williams

Chairperson

IN ATTENDANCE

Ms Irene Knox
Mr Terry Heron
Mr Brian Doherty
Mr Gavin Stewart

Chief Executive
Director of Business Support
Head of Internal Audit
Audit Manager, Northern Ireland Audit Office

APOLOGIES FOR NON ATTENDANCE

Mr P Carvill
Mr Gavin Patrick
Mr Rodney Allen

Department of Culture, Arts & Leisure
Director, Northern Ireland Audit Office

1. APPPOINTMENT OF INTERIM CHAIRPERSON OF THE INTERIM AUDIT AND RISK COMMITTEE

1.1. The Chief Executive welcomed Members to the first meeting of the interim Audit and Risk Committee meeting and introduced Mr Gavin Stewart, Audit Manager of the Northern Ireland Audit Office with responsibility for DCAL.

1.2. The Chief Executive asked for nominations for the position of Chairperson of the interim Audit and Risk Committee. On a proposal by Ms J Williams, seconded by Dr D Elliott, Members agreed that Mr A McDowell become Chairperson of the interim Audit and Risk Committee.
2. **CHAIRPERSON'S BUSINESS**

2.1. The Chairperson asked officers to consider options for the induction and training of new Audit and Risk Committee Members and report back to the next meeting.

3. **CORRESPONDENCE**

3.1. The Chairperson drew Members' attention to correspondence dated 11 June 2009 from the Permanent Secretary regarding the introduction by DCAL of a quarterly assurance statement by Accounting Officers in Arms Length Bodies with effect from the period ending 30 September 2009. A draft pro-forma document had been issued for comment. Members were informed that the Libraries NI Risk Management Strategy had been revised to take account of the requirements set out in the DCAL correspondence. The Risk Management Group would meet in the next couple of weeks to review the draft proforma and provide comments to DCAL. The Group would also co-ordinate the process to facilitate the completion by the Chief Executive of the quarterly assurance statement.

3.2. Members agreed that meetings of the Audit and Risk Committee should be timetabled to enable the quarterly assurance statement to be reviewed before submission to DCAL. The Head of Internal Audit advised Members that this would require meetings to be held in the first weeks of July, October and January each financial year. In addition meetings toward the end of March to consider annual plans and strategy documents and in the middle of May to consider annual reports and the draft final accounts would also be required. He advised Members that this was more than the minimum four meetings per year required. The Chairperson stated that he felt that this number of meetings was the minimum necessary to conduct the business of the Committee.

3.3. Members noted the correspondence.

4. **SCHEME OF DELEGATION FOR AUDIT AND RISK COMMITTEE**

4.1. Members considered the amended Scheme, which had been updated with changes recommended at the last meeting of the Board and, subject to agreement at this meeting, would be made available under the Publications Scheme on the Libraries NI website. Members were informed that Mr P Carvill had e-mailed the Chief Executive querying paragraph 6.2 of the Scheme with regard to the timescale for sending out the minutes of the meeting. Members discussed the best way of issuing the minutes and agreed that the wording should be amended to read: “within 15 days of the meeting of the Audit and Risk Committee draft
minutes will be circulated". Members further agreed that, in line with the draft Management Statement, draft minutes of all Board and Committee minutes should be circulated to Members and to DCAL within 15 days of the date of the meeting.

4.2. The Head of Internal Audit advised Members that the Scheme of Delegation was an alternative format to the Audit Committee Terms of Reference template available in the HM Treasury Audit Committee Handbook. A copy of the template was circulated for information. In order to ensure standard documentation/presentation, the Scheme (which was in the same format as would be used for all Committees of Libraries NI) rather than the Audit Committee Terms of Reference template had been presented for adoption. Members were asked to note the template and to satisfy themselves that all material requirements had been included in the adopted Scheme.

4.3. Mr Gavin Stewart, NIAO, referred Members to paragraphs 2.1 (e) and (f) of the draft Scheme and reported that the NIAO was the appointed external auditor for Libraries NI. It was noted that it may be the case in the future that this work would be sub-contracted by the NIAO but, if so, the NIAO would still remain the appointed external auditor. In light of Mr Stewart’s comments Members agreed to delete reference in the relevant paragraphs to the appointed external auditor.

4.4. On a proposal by Ms J Williams, seconded by Dr D Elliott, subject to the above amendments, Members approved the Scheme of Delegation for the Audit and Risk Committee.

5. INTERNAL AUDIT CHARTER

ARC 03.07.09

5.1. The Head of Internal Audit informed Members that Government Internal Audit Standards (GIAS) required that a Terms of Reference or ‘Charter’ be issued to detail the scope and responsibilities of Internal Audit. The attached document when agreed would be made available on the Libraries NI website under the Publications Scheme.

5.2. Dr D Elliott drew attention to paragraph 3.4 of the Internal Audit Charter which referred to potential conflicts of interests involving Auditors. He queried whether there were any areas of proposed work which would present a conflict of interest. The Head of Internal Audit replied that there were 3 audits within the annual plan which could present a potential conflict of interest. He advised Members that in his previous role as Corporate Governance Support Officer he had led on the development of Corporate Governance and Risk Management strategies and had been involved in Project Implementation. To avoid actual or perceived conflicts
of interest audits of these three areas would be outsourced with the likelihood that they would be audited by internal auditors from the ELBs.

5.3. It was agreed, in line with paragraph 4.1, that an updated organisational chart would be provided for Members of the Board.

5.4. Referring to paragraph 6.3 Dr Elliott asked how in practice the Head of Internal Audit would 'draw attention to any apparently uneconomical or otherwise unsatisfactory result'. Mr Doherty replied that in addition to regularity and risk based audits, value for money audits would be undertaken. Dr Elliott asked whether the audit programme would include regular reviews of the monthly budgetary control reports. The Head of Internal Audit stated that this was standard practice in the ELBs and that he would be keen to continue this practice in Libraries NI.

5.5. Dr Elliott asked for clarification regarding the relationship between Libraries NI and the O'Fiach Library. The Chief Executive replied that Libraries NI acted as a "post box" for monies allocated to the O'Fiach Library by DCAL to part-fund a member of staff who was currently on secondment from Libraries NI. Libraries NI had no operational responsibility for this funding or the member of staff concerned while on secondment to the O'Fiach Library.

5.6. Mr Stewart reported that all funding received by Libraries NI had to be recorded in the Annual Accounts and would be subject to external audit, including funding for which Libraries NI acted as a "post box". If any irregularity were to occur in the management of those funds by the O'Fiach Library it could impact on the Libraries NI Audit Certificate. The Director of Business Support agreed to discuss with DCAL the implications for Libraries NI of its role as a "postbox" for funding provided by DCAL for the O'Fiach Library.

5.7. It was agreed that at this stage Audit Committee Members should receive full copies of all internal audit reports. Accordingly Members agreed to delete the word "summary" in paragraph 7.4.

5.8. On a proposal by Dr D Elliott, seconded by Ms J Williams, Members agreed to approve the Internal Audit Charter, subject to the above amendment.

6. **RISK MANAGEMENT STRATEGY**  

6.1. The Head of Internal Audit reported that the Risk Management Strategy and supporting documents had been updated to take account of comments made by Members of the Board at their meeting on 30 April 2009 as well as the recent correspondence from DCAL in relation to the
introduction of quarterly assurance statements. Members agreed to consider each of the documents in turn.

6.2. **Risk Management Strategy**
The Chairperson reminded Members that it was not the responsibility of the Audit and Risk Committee to own or manage risk but rather to:

- be assured that an effective risk management structure was in place.
- ensure that changes in risks and the levels of risk were identified, monitored and managed.
- keep the Risk Management Policy under review
- review the Corporate Risk Register on a regular basis
- receive presentations from Directors on the management of risks in their sectors.
- review audit and other relevant reports on risk issues.

6.3. **Risk Management Policy**
The Chairperson referred to paragraph 7 (The Assessment of Risk) and asked how the 5 x 5 matrix used to assess risk had been developed. The Chief Executive replied that the approach taken was based on work that had been undertaken in the 5 ELBs and used by the NILA Implementation Team and which was therefore understood already by many staff. While the current approach worked well, DCAL had indicated that it would be producing a common template to be used by all its Arms Length Bodies for the production of Risk Registers and it was envisaged that the approach in Libraries NI would be used when this template became available. It was agreed that DCAL should be asked to provide the template as a matter of urgency.

6.4. **Risk Appetite**
The Chief Executive briefed Members on the proposed risk appetite of Libraries NI in relation to each of the core corporate objectives and sought Members’ views and advice on the proposals. Members noted that the risk appetite would be kept under review as the organisation developed. Members agreed that the overall approach to the risk appetite within Libraries NI should be cautious and were content to approve the risk appetite as set out in the paper.

6.5. **Risk Management Group**
In highlighting the Terms of Reference for the Risk Management Group, the Head of Internal Audit stated that members of the Group had
corporate responsibility for ensuring that all managers took steps to raise the level of awareness of risk management throughout Libraries NI.

It was noted that the Director of Business Support was the lead officer for the Risk Management Group.

6.6. Guide to Statement on Internal Control and Quarterly Assurance Statement
Members noted the document which had been updated to take account of the requirement for quarterly assurance statements.

6.7 Risk Management: Terminology and Definitions
Members noted the document.

6.8. Corporate Risk Register
6.8.1 The Head of Internal Audit explained the process used to develop the Corporate Risk Register, the structure and format of the Register and how the scores for the initial risk rating (without controls) and the residual risk (i.e. the risk remaining when the impact of existing controls was taken into account) were determined. It was noted that the Risk Register was a live document which would be updated on a regular basis following review at Senior Management Team level e.g. to take account of changes in corporate objectives or in the associated risks, the impact of additional controls or additional contributing factors. New risks might be identified and some risks might no longer be relevant. Members noted the officer(s) responsible for progressing additional controls as well as a review date when progress would be assessed were noted on the risk register.

6.8.2 The Chief Executive briefed Members on each the corporate objectives, the associated key risks, contributing factors, existing controls and additional controls required and answered Members' questions. Members discussed each of the corporate objectives and associated risks and the following matters were identified for further action:

* inclusion of training and induction of Members of the Authority as an additional control required in relation to Corporate Objective 4 (To ensure that Corporate Governance Principles and Risk Management are embedded in Libraries NI)

* inclusion of an additional threat to the achievement of Objective 8 (To deliver an agreed capital development programme) i.e. failure to meet capital expenditure targets

* consideration to be given to the implications of recommendations in the NIAO Report on The Investigation of Suspected Contractor Fraud in the BELB on Corporate Objective 1 (To provide a comprehensive and
efficient public library service) as well as Corporate Objective 8 (To deliver an agreed capital development programme)

- further consideration to be given to risks associated with the outworkings of the strategic review of the estate

- further consideration to be given to the risks associated with the delivery of the proposed refurbishment of Belfast Central Library and the implications of ensuring that Libraries NI's interests were adequately addressed within current and future governance arrangements for the Belfast Strategic Partnership.

6.9. In response to a question from Dr Elliott, the Head of Internal Audit confirmed that Libraries NI was currently in the process of registering with PCAW (Public Concern At Work) as a mark of its commitment to effective governance.

6.10. On a proposal by Ms J Williams seconded by Dr D Elliott Members approved the Risk Management Strategy.

7. INTERNAL AUDIT STRATEGY 2009/12

7.1. The Head of Internal Audit presented the draft strategy and informed Members that Government Internal Audit Standards (GIAS) required that Internal Audit should develop and maintain a strategy for providing the Accounting Officer, economically and efficiently, with objective evaluation of, and opinions on, the effectiveness of the organisation's risk management, control and governance arrangements. He briefed Members on the proposed audit areas and indicated that these were key areas which needed to be reviewed in the first year of operation.

7.2. In considering the document Members noted the following points:

- the Audit and Risk Committee would hold Senior Management Team to account for the implementation of audit recommendations and members of the Senior Management Team, not just the Accounting Officer, would be expected to attend the Audit and Risk Committee as required to account for what was happening in their specific areas of responsibility.

- audits in branch libraries would focus not just on financial matters but also on non-financial matters such as child protection, information security and health and safety.

7.3. The Head of Internal Audit advised Members that the Control and Risk Self-Assessment Questionnaire which would be one of the approaches
used in the audit process for branch libraries, had been developed based on a document issued previously by the NEELB. The issue of the Questionnaire would be timed to assist with the completion of the Statement on Internal Control.

7.4. In response to a question from Dr Elliott, the Head of Internal Audit confirmed that at present he was the only member of staff to hold a certificate in investigative practice but it was intended to recruit other Internal Audit staff and these staff members would be trained.

7.5. In response to a question from Dr Elliott the Head of Internal Audit confirmed that he was a qualified practitioner in PRINCE 2 methodology and that audit staff in ELBs who would be undertaking internal audits on behalf of Libraries NI under the terms of a Service Level Agreement were also trained in PRINCE 2 methodology.

7.6. The Head of Internal Audit confirmed that discussions were at an advanced stage with ELBs regarding the Service Level Agreement for internal audit services. Members noted that the facility also existed to tender for internal audit services where work could not be undertaken by the ELBs. The Head of Internal Audit agreed to include reference to this fact in the strategy document.

7.7. The Chairperson asked about the risk that ELBs or ESA may not be able to undertake internal audits on behalf of Libraries NI as a consequence of a reduction in their staffing resources. The Chief Executive replied that Service Level Agreements for internal audit and other services were being put in place until March 2010 which allowed time for further discussion with ESA regarding its capacity to provide support to Libraries NI. If support was not available, Libraries NI would tender for additional internal audit services.

7.8. The Chairperson referred to paragraph 4.5 (page 3) and sought clarification on the role of internal audit in relation to consultancy support and assurance that time allocated for the completion of internal audits would not be adversely impacted by the consultancy role. The Head of Internal Audit indicated that, although possibly time consuming, consultancy was a useful additional method of gaining assurance. He stated that any updates on work completed versus work planned would be provided to the Audit and Risk Committee at least twice a year.

7.9. The Chairperson referred to paragraph 7.4 (Page 6) and asked for clarification on how comments would be sought from the NIAO. The Head of Internal Audit indicated that the NIAO representative would be invited to comment as part of the Audit and Risk Committee meeting and Mr Stewart from the NIAO Office confirmed that if Members wished him to comment
he would do so. The Head of Internal Audit agreed to clarify the wording in the strategy document.

7.10. On a proposal by Dr D Elliott, seconded by Ms J Williams Members approved the Internal Audit Strategy for 2009/12. It was noted that the strategy was a rolling document to be reviewed and revised annually. It would also be made available under the Publication Scheme on the Libraries NI website.

8. INTERNAL AUDIT PLAN 2009/10

8.1. The Head of Internal Audit informed Members that the GIAS required the Head of Internal Audit to develop a risk based audit plan to take account of the organisation’s risk management framework. Quarterly updates would be provided to the Audit and Risk Committee and an Internal Audit Annual Report including actual versus planned activity would be presented to the Committee at the first meeting of each financial year.

8.2. Following discussion the Head of Internal Audit agreed to incorporate a column to record the projected start date for each of the planned audits.

8.3. In response to a question from the Chairperson, Mr Stewart (NIAO) stated that the external audit strategy would depend to a large extent on the accounts direction and the timing of the provision of the draft accounts. He stated that he would work with the Director of Business Support and issue the External Audit Strategy when these had been agreed.

8.4. On a proposal by Ms J Williams, seconded by Dr D Elliott Members approved the Internal Audit Plan for 2009/10.

9. REVIEW OF ELB HANDOVER STATEMENTS ON INTERNAL CONTROL

9.1. The Head of Internal Audit explained to Members that at the suggestion of the NIAO each ELB had been asked to complete a Handover Statement of Internal Control (SIC) advising the Accounting Officer of Libraries NI of any existing or potential internal control problems. It was agreed that the Handover SIC could be incorporated within the overall SIC completed by the Accounting Officer of each Board but that each ELB would consider the inclusion of any issues which they considered material for Libraries NI.

9.2. Members noted the following matters:
- The Belfast Education and Library Board made reference to an area of concern relating to Disability Access work in some branch libraries (cf also NIAO Report on the Investigation of Suspected Contractor Fraud in BELB, a copy of which had also been provided to Members.)

- The NEELB had no significant internal control problems relating to libraries but did outline areas that need to be addressed in a covering letter

- The SEELB made no reference in the SIC to any significant control problems relating to libraries.

- The SELB made reference in the SIC to the vetting of staff

- The WELB made no reference in the SIC to any significant control problems but in a covering letter stated that documentation relating to the ownership of Limavady Library was not available.

9.3. The Chairperson referred to frequent reference in the SICS to data security matters. The Head of Internal Audit advised Members that the format of the SIC required the Accounting Officer to specifically state the risks involved in managing the security of information and actions that were being taken to mitigate these risks. The Accounting Officer of Libraries NI would also be considering data security in terms of completion of her SIC.

9.4. The Chairperson then asked about the national fraud initiative mentioned in the SICs of the ELBs. The Head of Internal Audit advised Members that he had been having discussions with the NIAO about this issue. The scheme ran over a two year period but as the data extracted for investigation had been taken from the ELBs before its formation, Libraries NI, was not involved. It was envisaged that data for review under the National Fraud Initiative would be required by NIAO on a regular basis (every two or three years) and that Libraries NI would be involved next time.

9.5. The Chairperson asked about the ELBs' Financial System, indicating that he was aware that their systems had been unable to record accruals on an on-going basis. He asked whether the Libraries NI financial systems were better able to account for accruals. The Director of Business Support replied that the commitment process was available and would be of great benefit in the production of the annual accounts but Libraries NI were not planning to produce a full set of accounts each month because of the levels of work required to complete such an exercise.
9.6. Members noted the contents of the handover statements.

10. REVIEW OF ELB INTERNAL AUDIT REPORTS ARC 08.07.09

10.1. The Head of Internal Audit presented the paper which was a summary of Internal Audit Reports produced by each of the 5 ELBs over the past few years. It was noted that these reports supplemented the Handover Statement of Internal Control (SICs) provided by each Board. Members were also provided with a copy of the NIAO report on 'The Investigation of Suspected Contract Fraud' which included issues relating to DDA work in branch libraries in the BELB. Members noted that documentation.

10.2. The Head of Internal Audit confirmed that the Libraries NI Internal Audit Plan for 2009/10 would include audits of branch libraries, building maintenance, employee vetting and as a result it should be possible to determine which, if any, of the recommendations made in ELB Internal Audit Reports were outstanding. He agreed to report back to the Audit Committee on this matter.

10.3. The Chief Executive confirmed that she had already taken on board the NEELB recommendation regarding the borrowing entitlement of staff and that an instruction had issued to all staff with effect from 1st April 2009 confirming that staff borrowing entitlements were to be the same as any other user.

10.4. The Chief Executive drew Members' attention to the NIAO report on suspected contractor fraud in the Belfast Education and Library Board. She added that minutes of the Public Accounts Committee were not yet available but when they become available Libraries NI would scrutinize them for recommendations which would need to be built into Libraries NI's control framework.

11. INTERNAL AUDIT ACTIVITY REPORT ARC 09.07.09

11.1 The Head of Internal Audit informed Members that the Chief Executive had requested Internal Audit to conduct a consultancy audit as to the merits of two alternative systems for managing BACS payments. After talking to the Director of Business Support and other members of staff it became clear that the main difference between the 2 systems was the timing of reports. After careful consideration and taking into account the outcome of the Consultancy Audit it was decided that the ALBACS system was best suited to Libraries NI's needs. The recommendations had been accepted and were already being implemented.
11.2. Members noted the summary including the recommendations of the Consultancy Audit conducted on the BACS Payment System and the action being taken.

12. REPORT ON IMPLEMENTATION OF ICT SYSTEMS ARC 10.0709

12.1. The Director of Business Support presented the paper. The Chairperson asked for the phrase "extend and share systems and services with other NDPBs with NILA service delivery" to be explained. The Director of Business Support replied that it was built into the procurement process that Libraries NI systems could be extended to share with other NDPBs. Members noted that the Corporate Services systems included Finance, HR, Payroll, Time and Attendance, Expenses and Asset Management.

The Director of Business Support outlined to Members that the payroll system would be implemented in two phases. Library staff who have been paid on a current month basis by the ELBs would transfer to the LNI payroll and be paid on 30 July for July work. It is planned that library staff who have been paid on a lunar (4 weekly) or a month in arrears payroll by the ELBs will transfer to an Libraries NI payroll in October. Members noted that the Trades Unions have been extensively consulted about this matter.

Members were informed that the Assets Management system has not yet progressed. In response to a question from the Chairperson, the Director of Business Support stated that the asset management system would interface with the general ledger to facilitate the production of accounting information. He further added a disaster recovery contingency plan was also being developed.

The Chairperson asked if the server was designed for increased capacity or if it’s current capacity could be increased and was informed that the server’s current capacity could be increased. The Chairperson asked if a schedule of mission critical projects within the authority could be provided for the next Audit and Risk Committee meeting. It was noted that the attached report provided an overview of the background to the decision to implement corporate systems in Libraries NI, the progress to date on implementation of the systems and data security covering the systems.

This document is fully disclosable on request.

13. NIAO ISSUES

13.1. Mr Gavin Stewart, Audit Manager, Northern Ireland Audit Office, informed the Committee that a number of useful meetings had taken place between the NIAO and SMT / the Head of Internal Audit before Libraries NI became operational. He added that the NIAO would be issuing a Letter of
Understanding in due course and his office was keen to continue to have discussions with LNI Senior Management while still needing to maintain their independence. Mr Stewart enquired if an accounts direction had issued as yet from DCAL and whether the Financial Memorandum was in place. The Chief Executive stated that no accounts direction had been received but that there had been substantial consultation with DCAL on the Financial Memorandum. A draft Financial Memorandum had been agreed by the Board at its last meeting and was currently with DCAL for approval. Libraries NI was operating on the basis of the current draft Financial Memorandum. Mr Stewart indicated that he would be in touch with DCAL in relation to the issue of an accounts direction for Libraries NI.

13.2. Mr Stewart reminded Members that Libraries NI Annual Accounts must be prepared under International Financial Reporting Standards. He added that the Audit Office, as well as being responsible for audits of the Accounts, also had a remit in relation to Value for Money audits and a colleague from the Value for Money Section of the NIAO may attend some of the Audit and Risk Committee meetings in future. He added that the 2008/09 ELB Management Letters would not be available until September.

14. ANY OTHER NOTIFIED BUSINESS

14.1. It was agreed that the first item on the agenda for the next meeting of the Audit and Risk Committee should be training and induction for Members.

14.2. Dr D Elliott advised that the announcement for Councillor Members of the Libraries NI Board would be made shortly and it was hoped that the Councillors would be able to attend the Board meeting to be held on 26 August 2009.

15. DATE OF NEXT MEETING

15.1. It was agreed that the next meeting of the interim Audit and Risk Committee would be held on Wednesday 7 October at 10.00 am in Lisburn City Library.

16. MEMBERS ARRIVAL AND DEPARTURE TIMES

16.1. The meeting ended at 4.45 pm. All Members arrived for the commencement of the meeting, and remained until it ended.

Signed: ____________________________

Date: 7/10/2009