

NORTHERN IRELAND AUDIT OFFICE
&
AUDIT COMMITTEE OF THE NORTHERN IRELAND
ASSEMBLY

MEMORANDUM OF UNDERSTANDING ON THE
GOVERNANCE AND ACCOUNTABILITY
ARRANGEMENTS OF
THE NORTHERN IRELAND AUDIT OFFICE

1. Introduction

- 1.1 This Memorandum sets out the understanding of, on the one hand, the Northern Ireland Audit Office (NIAO), and on the other, the Audit Committee of the Northern Ireland Assembly, of the framework for the corporate governance and accountability of the NIAO.
- 1.2 This Memorandum replaces the previous Memorandum signed by the Comptroller and Auditor General and the then Chair of the Audit Committee of the Northern Ireland Assembly on Wednesday 26th March 2014.
- 1.3 The NIAO, which is totally independent of government, seeks to hold public bodies to account for the way they use public money. It provides objective information, advice and assurance on how public funds have been used and encourages high standards in financial management, good governance and propriety in the conduct of public business.
- 1.4 The NIAO is headed by the Comptroller and Auditor General for Northern Ireland (C&AG), an Officer of the Northern Ireland Assembly. The C&AG and his staff are the external auditors of all Northern Ireland Departments, executive agencies and other central government bodies, including non departmental public bodies and health and social care bodies. In addition, a senior member of staff of the Office is designated as the Local Government Auditor and responsible for the audit of councils and other local government bodies.
- 1.5 Because of its public profile and the nature of its work, the NIAO recognises the importance of being exemplar in the handling of its own affairs and retaining its credibility with the Assembly, audited bodies and other stakeholders. It is committed to adhering to the highest standards of corporate governance and accountability, underpinned by transparency, and to promoting and securing value for money in its use of public funds.
- 1.6 Oversight of NIAO performance is carried out by the Audit Committee of the Northern Ireland Assembly. The Committee is a Standing Committee established in accordance with paragraph 10 of Strand One of the Belfast Agreement and under Assembly Standing Order No. 58. The Committee has the power to:
 - exercise the functions mentioned in Section 66(1) of the Northern Ireland Act 1998. The Committee therefore agrees the annual estimate of the use of resources of the NIAO and lays it before the Assembly; and

- table a motion in respect of the salary of the C&AG.

1.7 The purpose of this memorandum is to set out:

- the values and standards of the NIAO in carrying out its work;
- the internal governance arrangements of the NIAO which shall support the C&AG in the delivery of his functions, a process that is kept under continuous review to ensure best practice informs the arrangements; and
- the commitments of the C&AG and NIAO to the Assembly's Audit Committee on the actions they will take to uphold transparency and manage public money effectively, and in doing so to provide confidence to the Assembly and wider public regarding the arrangements for the governance and accountability of the NIAO.

2. How the NIAO will carry out its business

2.1 In support of the achievement of its aims and objectives, the NIAO will maintain systems of governance, risk management and internal controls consistent with best practice, monitor that the systems are operating effectively and report on the systems in the Governance Statement in its Annual Report and Accounts. It will endeavour to conduct its business in an economic, efficient and effective way.

2.2 The NIAO is funded by the Assembly. The C&AG, as Accounting Officer for the NIAO, will fulfil the responsibilities assigned to him in Managing Public Money Northern Ireland published by the Department of Finance and Personnel (DFP), including assuring the Assembly and the public of high standards of probity in the management of public funds.

2.3 The NIAO has its own Code of Conduct which reinforces the core values and standards of its work and provides a reference point for decisions and courses of action in carrying out its statutory and professional responsibilities. Further detail on the NIAO Code of Conduct is set out in an Appendix to this memorandum.

3. Governance arrangements

Role of the C&AG

- 3.1 The powers and duties of the C&AG are set out in legislation. An overview of the main statutory provisions is as follows:

Northern Ireland Act 1998

This lays out the means of appointing the C&AG and provides that, in exercising his functions, except for any function conferred on him of preparing accounts, he shall not be subject to the direction or control of any Minister or Northern Ireland Department or the Assembly.

The C&AG has complete discretion in the discharge of his statutory audit functions. Responsibility for all audit opinions and judgements rests with the C&AG alone.

Audit (Northern Ireland) Order 1987

This provides for the C&AG to be a corporation sole; established the NIAO to support the C&AG in the discharge of his statutory functions; allows for the C&AG to examine and report to the Assembly on whether public bodies have used resources economically, efficiently and effectively; provides for the NIAO Estimate to be agreed between the C&AG and the Audit Committee of the Assembly; and requires DFP to appoint the Accounting Officer, who is responsible for preparing the NIAO resource accounts, and the external auditor of the NIAO.

Government Resources and Accounts Act (Northern Ireland) 2001

This act provides for the C&AG to authorise the issue of public funds by the Department of Finance and Personnel from the Northern Ireland Consolidated Fund to Northern Ireland departments and others (the 'Comptroller' function); and for the C&AG to audit the financial statements of all Northern Ireland departments. Other legislation requires individual public bodies to be audited annually by the C&AG.

Local Government (Northern Ireland) Order 2005

A member of the C&AG's staff, with his consent, can be designated by the Department of the Environment as the local government auditor. The local government auditor carries out his/her statutory and other responsibilities, and exercises professional judgement, independently of the Department and the C&AG.

3.2 As head of the NIAO and with primacy of authority vested in his statutory position as corporation sole, the C&AG is responsible for putting in place an internal governance architecture to support him in the delivery of his functions. The arrangements he has established are detailed below. These will be reviewed annually.

NIAO Executive Team

3.3 The Executive Team, which comprises the C&AG (chair) and Assistant Auditors General, is responsible for the strategic leadership of the Office. The Assistant Auditor General for Corporate Services holds the role of Finance Director.

3.4 Subject to the C&AG's statutory position, the team is the principal mechanism for decision making in the NIAO. It meets monthly and its responsibilities, which cover the five areas of strategic clarity, commercial sense, talented people, results focus and management information set out in the 'Corporate governance in central government departments: Code of good practice NI 2013', 'the 2013 Code', issued by DFP, include:

- the development and implementation of corporate strategies and policies;
- the annual preparation of the estimate;
- the budgeting process and annual resource allocations;
- the staffing and training requirements of the Office;
- risk management arrangements;
- the management of communications and stakeholder relationships;
- monitoring performance against the corporate plan, business plans, budgets and targets;
- content and direction of annual report;
- the nature and scope of forward financial audit, VFM and good governance work;
- the delivery of financial audit, VFM and good governance work in accordance with agreed timetables and programmes;
- the design and implementation of quality assurance;
- the delivery of corporate change initiatives against milestones; and
- the development and implementation of policies on the health and well being of staff, for the safety of staff and visitors, and on equality and diversity issues.

3.5 The Executive Team is supported by a number of subgroups focusing on Delivery, People, Quality and Stakeholders.

C&AG's Advisory Group

- 3.6 The Advisory Group is responsible for providing objective and impartial advice to the C&AG to assist him in the discharge of his functions. The group scrutinises the work of the NIAO in the five areas cited in 'the 2013 Code' (see paragraph 3.4) with the objective of providing constructive challenge.
- 3.7 Its membership comprises both executives (C&AG and Assistant Auditors General) and non-executives, the latter bringing an independent and external perspective to the work of the group. The non-executives by virtue of their membership of the NIAO Audit Committee will be ex officio members of the group (see paragraph 3.10).
- 3.8 The chair of the Advisory Group will be appointed from the members of the group by the C&AG, following endorsement by the Audit Committee of the Assembly, and will not simultaneously hold the position of Chair of the NIAO Audit Committee.

NIAO Audit Committee

- 3.9 The NIAO Audit Committee supports the C&AG as Accounting Officer in his responsibility for issues of risk, control and governance by reviewing the comprehensiveness of assurances in meeting the Accounting Officer's assurance needs and reviewing the reliability and integrity of these assurances.
- 3.10 Its membership will comprise non-executives only. One post may be allocated to a representative from a public audit agency in the UK or Ireland. Other members will be appointed by open competition, based on merit, and will be ex officio members of the Advisory Group (see paragraph 3.7 above). The appointment panel will comprise as a minimum three persons, including a member of the Audit Committee of the Northern Ireland Assembly and the C&AG.
- 3.11 Each member will be appointed for a three year period, which may be extended for a maximum of a further three years by the C&AG with the endorsement of the Audit Committee of the Assembly.
- 3.12 The chair of the NIAO Audit Committee will be appointed from the members of the Committee by the C&AG, subject to the endorsement of the Audit Committee of the Assembly.
- 3.13 At least one member of the NIAO Audit Committee should have recent and relevant financial experience. This experience should be sufficient to allow them to competently engage with financial management and reporting in the organisation, and associated assurances.

3.14 The C&AG will agree the terms of reference for the NIAO Audit Committee. The Committee will scrutinise and advise in the following areas:

- the strategic processes for risk, control and governance and the Governance Statement, the integrity of the accounting policies, the annual report and accounts, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- oversight of strategic financial management and budgeting processes;
- disaster recovery contingency and crisis planning;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to the issues identified by audit activity, including external audit's management letter;
- assurances relating to the management of risk and corporate governance requirements for the NIAO; and
- anti-fraud policies, whistleblowing processes and arrangements for special investigations.

3.15 On the advice of the NIAO Audit Committee, the NIAO will appoint the internal auditor. The appointment of the external auditor is the responsibility of DFP under the Audit (Northern Ireland) Order 1987. In accordance with an extra statutory arrangement, the appointment will be made by DFP acting on advice from the Audit Committee of the Northern Ireland Assembly.

3.16 Internal audit and external audit will have free and confidential access to the Chair of the NIAO Audit Committee. The Chair of the NIAO Audit Committee will have access to the Audit Committee of the Northern Ireland Assembly.

3.17 The Assembly Audit Committee shall have the opportunity to meet with the non-executive members of the NIAO Audit Committee once per year.

4. Transparency

4.1 As a public funded organisation, the NIAO has a duty to be transparent in its operations and outcomes. The Freedom of Information Act 2000 gives a general right of access to all types of recorded information held by public authorities, including the NIAO. The NIAO publication scheme explains what information it proactively makes available to the public.

4.2 The NIAO commits to publish:

- minutes of the Executive Team, C&AG's Advisory Group and NIAO Audit Committee;
- information relating to the provision and receipt of gifts, benefits and hospitality by the C&AG, non-executive members and senior management of the NIAO;
- travel and subsistence expenditure for the C&AG, non-executive members and Executive Team; and
- total consultancy expenditure at year end.

5. Accountability

- 5.1 The C&AG is a 'corporation sole'. While NIAO staff assist in the discharge of his functions, all legal powers, rights and duties are vested in the office of Comptroller and Auditor General.
- 5.2 In his role as Accounting Officer for the NIAO, the C&AG is responsible for preparing the NIAO's accounts and transmitting these to the auditor. The external auditor certifies the accounts of the NIAO, which are then laid before the Northern Ireland Assembly by DFP. Additionally, the external auditor has the power to carry out economy, efficiency and effectiveness examinations of the use of resources by the NIAO (value for money studies). The auditor's reports on these examinations will be provided to the Audit Committee of the Northern Ireland Assembly, who may consider sharing these with the Northern Ireland Assembly's Public Accounts Committee (PAC).
- 5.3 The Audit Committee of the Assembly scrutinises the performance of the NIAO. In its role, it will:
- consider the estimate prepared by the C&AG of the use of resources by NIAO for the next financial year. In doing so, it shall have regard to the advice of PAC and DFP;
 - subject to any modifications agreed between the Committee and the C&AG, lay the annual estimate before the Assembly;
 - in advance of considering the annual estimate, consider a draft corporate plan for the NIAO, which is prepared by the C&AG on an annual basis, setting out the NIAO's key strategic aims for the next three financial years; how the NIAO propose to deliver these aims; the resources that are required by the NIAO to do so; and their key performance measures. The draft corporate plan is an important document for the Audit Committee as it provides the necessary background and context to enable the estimate to be agreed subsequently. Given its significance, the Committee will seek the views of both PAC and DFP in relation to it;

- examine the NIAO annual report and accounts and consider the external auditor's reports;
- advise on the commissioning of value for money studies to be undertaken by the external auditor on NIAO's use of resources;
- consider the external auditor's reports on value for money studies;
- examine NIAO's in year financial monitoring reports;
- table a motion in the Assembly in respect of the salary of the C&AG;
- provide advice to DFP on the appointment of the NIAO external auditor;
- have the opportunity to meet with NIAO non-executives annually;
- examine any other matter relevant to the NIAO's performance; and
- publish its own reports as appropriate.

5.4 The NIAO commits to draw to the attention of the Audit Committee of the Assembly any particularly serious or significant matter as soon as practicable.

5.5 The NIAO will give evidence at the hearings of the Audit Committee of the Northern Ireland Assembly on the Corporate Plan, Estimate and Annual Report and Accounts, and on any other matter that the Committee so requests.

5.6 The NIAO commits to provide written responses to questions from Members of the Legislative Assembly (MLAs) relating to the business of the NIAO within ten working days. Where this may not be possible due to the complexity of the issues raised, an interim holding response will be provided to the correspondent with details of the anticipated date of substantive reply. The NIAO will deposit all substantive written responses to MLAs' questions in the Assembly library.

6. Review

- 6.1 The NIAO and the Assembly Audit Committee commit to upholding this Memorandum of Understanding and reviewing it at least annually. Changes to any provision contained therein must have the agreement of both parties.

Kieran J Donnelly
Comptroller and Auditor General

[Signature]
Deputy Chair of the Audit Committee of the
Northern Ireland Assembly

1 July 2015
Date

29th July 2015
Date

NIAO Code of Conduct

As a public sector body, NIAO is required to observe high standards of probity in the management of its 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 Code focuses on three crucial public service values which must underpin the work of the NIAO:

Accountability

The NIAO must be able to stand the test of Assembly scrutiny, public scrutiny on propriety and professional codes of conduct.

Probity

There should be an absolute standard of honesty and integrity in handling NIAO work and resources.

Objectivity and impartiality

The C&AG's independence is secured in statute and NIAO needs to be objective and impartial in all its work, including accurate, fair and balanced reporting.

A full copy of the Code of Conduct is available at www.niauditoffice.gov.uk.

