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Dear Daniel

### **Review of the Governance and Accountability Arrangements for the NIAO**

The Committee's letter to me dated 23 October 2020 referred to a review of governance and accountability arrangements for my Office (and the NI Public Sector Ombudsman), and indicated that the Committee would be seeking evidence from a range of sources.

At that time my staff, as part of our Business Transformation Programme, were already working on a key strand of the programme, under the "Governance and Audit Practice" element, to review the most appropriate governance structure for NIAO. As an earlier part of this process, I had updated the terms of reference for each of the internal governance mechanisms, introduced a new Remuneration Committee, developed and enhanced the roles and responsibilities of the non-executive members and appointed a new Chairperson and non-executive members.

My review of the governance structure is now complete and I am therefore submitting the enclosed paper to support the work of your Committee in its review. I trust that you will find this informative and it will assist you in your ongoing work.

Should you need any further information, or clarification, please do not hesitate in contacting me.

Yours sincerely



**KIERAN DONNELLY CB**  
**Comptroller and Auditor General**

# Governance in the Northern Ireland Audit Office (NIAO)

## 1. Introduction

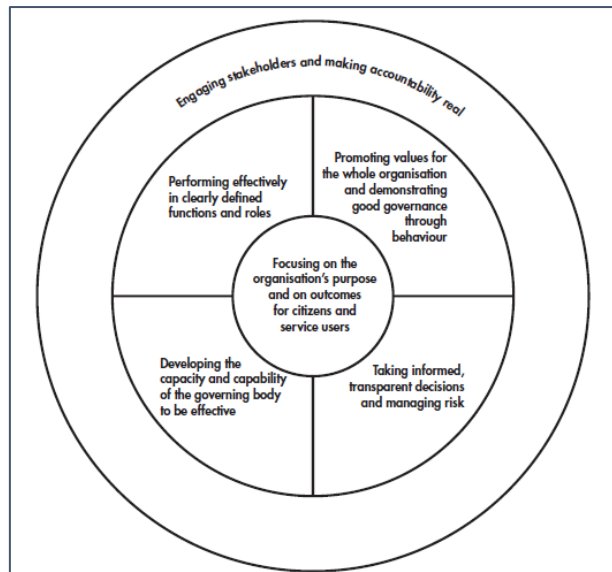
One of the key strands in the “Governance and Audit Practice” element of the NIAO’s Business Transformation Programme (BTP), is to undertake an assessment of the most appropriate governance structure for the NIAO. The following were the project deliverables:

1. Review the corporate governance framework to ensure the NIAO has effective governance for addressing risk within the context of a corporation sole model;
2. Review, update and develop terms of reference for:
  - Advisory Board;
  - Audit and Risk Assurance Committee;
  - Remuneration Committee; and
  - Senior Management Team
3. Develop roles and responsibilities for non-executive members; and
4. Appoint new non-executive Members.

Project deliverables 2, 3 and 4 have been completed. This paper therefore focuses on a review and assessment of the corporate governance model in comparison with the practice adopted by other audit institutions.

## 2. Principles of Good Governance

The Independent Commission on Good Governance in Public Services was established by the Office for Public Management and the Chartered Institute of Public Finance and Accountancy, in partnership with the Joseph Rowntree Foundation. The role of the Commission was to develop a common code and set of principles for good governance across public services. Following a period of consultation with key stakeholders, it produced a report, “*Good Governance Standard for Public Services (2005)*,” setting out the following six key principles, *as set out below at figure 1*, which remain as relevant today as when they were introduced:



**Figure 1 - Good Governance Standard for Public Services<sup>1</sup>**

Since the publication of the report, the public sector has evolved through the adoption of these principles and has professionalised its finance operations, improved the coverage of the internal audit function and matured its risk management procedures. However, there remains a need for constant vigilance and challenge in how it handles areas such as fraud, raising concerns, contract management and procurement, and maintains its ethical standards, particularly around conflict of interest.

Lessons have been learned from high profile governance failures, many of which have common threads such as a closed culture and a tendency to cover up bad news, or the filtering of information being shared with other stakeholders, including parent departments and boards. Lack of clarity between non-executives and executives and between the role of accounting officers and the boards is another common theme.

The NIAO, in developing its own governance structures, has taken on board the Commission's key principles, and has observed and learned from high profile governance failings, particularly in other Supreme Audit Institutions (SAIs), referred to later. Equally important to having the right governance structure are matters such as ethical standards, good values and proper behaviours. The NIAO also refreshed its vision, purpose and values in the development of a strategic framework<sup>2</sup>.

### **3. Research and Information Service (RAISE)**

**RAISE Paper (2012)** - The theme of governance reform, specific to the NIAO, was referred to in the NI Assembly Research and Information Service Briefing Paper "Potential Areas of Work for the Audit Committee (2012)". In this paper, one of the potential areas for review was the governance of the National Audit Office (NAO) and

<sup>1</sup> Source: Independent Commission on Good Governance in Public Services (2005) – see Appendix 1

<sup>2</sup> [Strategic Corporate Framework \(2018-2021\)](#)

the Wales Audit Office<sup>3</sup> (WAO) and, by inference, whether the NI Assembly Audit Committee (NIAAC) should consider a review of the governance of the NIAO.

The committee subsequently met with the Public Accounts Commission (Westminster) which provided the committee with some further background and set out a number of options as to how the committee might proceed. At that stage it was decided that the committee should agree with the Comptroller and Auditor General (C&AG) a Memorandum of Understanding (MoU) on corporate governance arrangements, transparency and accountability at the NIAO (see Appendix 2). This was put in place on 26 March 2014, and amended on 30 June 2015, but it no longer reflects the latest NIAO governance structures and needs updated.

**RAISE Paper (May 2020) - Assembly's Audit Committee and its GB counterparts: A comparative perspective** – This Paper provided NIAAC with comparative research on the Committee and its counterparts in Great Britain. It set out the key roles and responsibilities of each; and provided an explanation of the relationship with each jurisdiction's audit office, including roles, responsibilities, governance arrangements and work programmes in recent years.

**RAISE Paper (November 2020) – Public Audit Governance** – This research was conducted for NIAAC to review reforms taken across the UK to strengthen the governance of the post of Auditor General and associated audit offices. These reforms were primarily concerned with independence, good governance and the quality of public audits; it had found that each review had different processes but similar outcomes.

## **4. Senior Management Restructuring**

In 2016/17, the C&AG commissioned a review of the senior management structure. This resulted in the creation of the position of Chief Operating Officer (COO), to increase the focus on the operational effectiveness of the organisation, the suppression of the three Assistant Auditor General roles, and the strengthening of the Advisory Board function.

## **5. Key components of Governance Structure**

Since 2018-19 the NIAO, as part of its Business Transformation Programme, has been carrying out a major review of the role, responsibilities and membership of governance structures, including the Advisory Board and the Audit and Risk Assurance Committee.

### **5.1 Comptroller and Auditor General** - In keeping with Article 1 of the Audit (NI) Order 1987, the office of Comptroller and Auditor General is a corporation sole. Section

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<sup>3</sup> Now known as Audit Wales

65(1) of the Northern Ireland Act 1998 provides that the Comptroller and Auditor General for Northern Ireland is appointed as an Officer of the Assembly by the Queen on nomination by the Northern Ireland Assembly (i.e. not the Executive). The independence to work in a self-determined manner is protected by section 65(3). Further detail on the role is recorded at section 9 of this report.

**5.2 Advisory Board** - The Advisory Board is responsible for providing objective and impartial advice to the C&AG to assist him in the discharge of his functions and to work in partnership with him and the Senior Management Team. It also scrutinises NIAO finances and advises and provides challenges to the C&AG on key business areas. Membership comprises four non-executives of the NIAO (including the Chairperson<sup>4</sup>), and two executive officers, namely the C&AG and the COO.

The Chairperson was appointed by open competition from a panel which included the Chair of the Public Accounts Committee (PAC), the Clerk of the NI Assembly and the C&AG; the panel composition reflected the NIAO's close links to the Assembly, with the C&AG being an Officer of the House and the NIAO providing a service to the Assembly.

A skills-based open recruitment exercise was undertaken to recruit new non-executive Directors (NEDs) to serve on the Advisory Board. The Chairperson and the Clerk of the NI Assembly were included in the appointment panel for the remaining NEDs. The Chairperson and NEDs were appointed on 1 November 2018 and 1 April 2019 respectively for a three year term.

To further enhance the governance process, a board evaluation questionnaire was developed and issued to the members, taking into account the NIAO's publication, "Board Effectiveness: A Good Practice Guide" and the National Audit Office Board Evaluation Questionnaire. The overall conclusion arising from the exercise was that the Board is performing effectively, achieving a score of 89 out of 100, where a score of 75 or more is deemed desirable. Nevertheless, a number of improvement actions were identified and taken forward in 2020-21.

**5.3 Audit Risk and Assurance Committee** - An Audit and Risk Assurance Committee (ARAC) is in place to review the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report. Membership comprises three non-executives of the NIAO, excluding the Board Chairperson. ARAC reports to the Advisory Board.

**5.4 Remuneration Committee** - A Remuneration Committee was established in 2019-20 to advise on matters including terms and conditions of employment for NIAO staff (excluding the C&AG), talent management, succession planning, pay settlements and the application of remuneration policy. Membership comprises all non-executives of the NIAO. The Remuneration Committee reports to the Advisory Board.

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<sup>4</sup> The NIAO Chair's post attracts a remuneration package of £12k per annum

- 5.5 Senior Management Team** - The C&AG's strategic decision-making process is supported by a Senior Management Team (SMT). SMT membership is currently the C&AG, the COO and six directors. A similar exercise to the board effectiveness assessment was also conducted by SMT in April 2020.
- 5.6 Operational Management Team (OMT)** – The Operational Management Team (OMT) is responsible for the delivery of the key business areas of the NIAO, as set by the SMT. It comprises the COO and the directors and meets on a weekly basis. The OMT informs the C&AG through the SMT, on an ongoing basis, about matters relevant to its remit. Significant issues are reported promptly by the COO to the C&AG.
- 5.7 NI Assembly Audit Committee (NIAAC)** - The NIAO has a Memorandum of Understanding (MoU) in place with the NIAAC, a standing committee established as part of the Northern Ireland Act 1998. This Committee agrees the annual estimate of the use of resources of the NIAO, lays it before the Assembly and tables a motion in respect of the salary of the C&AG. Under this Memorandum the C&AG and the NIAO commit to the actions they will take to uphold transparency and manage public money effectively, and in doing so provide confidence to the Assembly and wider public regarding the arrangements for the governance and accountability of the NIAO.

The MoU provides for non-executive members of the NIAO's ARAC to have the opportunity to meet with the NIAAC once per year. However, as detailed above, NIAO governance arrangements have changed since the MoU was compiled, so there needs to be a refresh which should include provision for the NIAO Board Chairperson to meet with the Committee.

The MoU with the NIAAC is attached at Appendix 2. Terms of Reference for the Advisory Board, ARAC, Remuneration Committee, SMT and OMT are attached at appendices 3 to 7.

- 5.8 Local Government Auditor** - A senior member of NIAO staff is designated by the Department for Communities, with the consent of the C&AG, as the Local Government Auditor. This role is currently undertaken by the Office's COO. The Local Government Auditor, assisted by NIAO staff, is responsible for the audit of local government bodies. The Local Government Auditor undertakes the responsibilities of that role independent from the C&AG.

## **6. Internal Audit**

A review of corporate governance was conducted as part of the 2019-20 Internal Audit Strategy. This review recognised that the NIAO has been proactive in developing its governance arrangements in order to reflect good governance arrangements within the boundaries of a corporation sole, including the recruitment process for a new board chairperson and NEDs. Internal Audit used the Department of Finance's good

practice guide entitled 'Corporate Governance in Central Government Departments: Code of Good Practice 2013' as a benchmark.

Internal Audit considered openness and transparency within the NIAO to be vitally important. It found all policies and procedures concerning anti-fraud & bribery, raising concerns, and gifts & hospitality were in place and are subject to regular review. In addition to the Gifts & Hospitality Register, each of the NEDs has completed a declaration of potential conflicts of interest, which are documented and retained for inspection.

Overall, Internal Audit concluded that the NIAO could take **Satisfactory Assurance** that the controls upon which it relied to manage risks material to the achievement of its objectives in its management of corporate governance were suitably designed and effective.

## **7. Benchmarking with Other Audit Institutions**

### **7.1 National Audit Office (NAO)**

The Comptroller and Auditor General in the NAO is appointed by the Queen and is responsible for developing and implementing strategy, making audit judgments, deciding a programme of value for money examinations and reporting the results of his work to Parliament.

As Accounting Officer, he has responsibility for maintaining effective governance and a sound system of internal control that supports the achievement of the NAO's policies, aims and objectives, while safeguarding the public funds and assets for which he is personally responsible.

His governance arrangements were laid down in the Budget Responsibility and National Audit Act 2011. Under this Act, the NAO was established as a corporate entity to support the C&AG, with a statutory board. Under this legislation, the maximum time the C&AG may hold office is for ten years. This change followed a period of tenure by Sir John Bourne of twenty years (1988-2008) during which governance failings occurred.

The role of the NAO board is to provide effective support and challenge in improving the NAO's operations, provide additional rigour and discipline in decision-making and bring insight from the wider experience of the non-executive members to inform the strategic thinking of the NAO. Its key responsibilities, jointly with the C&AG, are for the development of the NAO strategy and resource estimate, and for the appointment of executive members.

The relationship between the C&AG and the Board is set out in a code of practice approved by the Public Accounts Commission, and the Board operates in line with this and its terms of reference. The Board is supported by an Audit Committee and a Remuneration and Nominations Committee.

There is a clear division of responsibility between the chairman of the board<sup>5</sup> and the C&AG; the chairman is responsible for the leadership and effective working of the board, whereas the C&AG is responsible for implementing the strategy, making audit judgements, deciding a programme of value for money examinations and reporting the results of this work to Parliament.

The Public Accounts Commission in the Parliament at Westminster was established by the 1983 National Audit Act, and oversees the work of the NAO. Its key functions include examining the NAO strategy and annual bid for resources, appointing the NAO's external auditors and considering their reports, and publishing its own reports as appropriate. The Commission meets twice a year; once to consider the NAO's three year strategy (typically in the autumn) and once to consider the NAO's estimate (in early spring). Within this process, the C&AG has complete discretion in carrying out his/her functions, subject to any limitations that are agreed between the Commission, the Board and the C&AG.

## 7.2 Audit Wales

The Office of Auditor General for Wales (AGW) was established as a corporation sole, which can be held by an individual for a maximum of **eight** years. His role is independent of government. He is not a civil servant. He is appointed by the Queen. He has complete discretion as to the manner in which the functions of that office are exercised but must:

- aim to carry out those functions efficiently and cost-effectively;
- have regard to the standards and principles that an expert professional provider of accounting or auditing services would be expected to follow; and
- have regard to advice given by Audit Wales.

He is also the Chief Executive and Accounting Officer of Audit Wales with responsibility for keeping financial records and preparing annual accounts in accordance with Treasury directions. Further Accounting Officer responsibilities are specified by the National Assembly.

Against a difficult background of a criminal conviction for the then C&AG and other governance failures, the Public Audit (Wales) Act 2013 established Audit Wales as a corporate body; facilitated the establishment of a board<sup>6</sup> and appointed the Auditor General as a member of the Board and the Chief Executive of Audit Wales. The National Assembly appointed five non-executive members, including the Chair<sup>7</sup>, and ensured that Audit Wales, amongst its other responsibilities, prepared for becoming the employer of staff and the holder of all other resources.

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<sup>5</sup> The NAO Chair's post attracts a remuneration package of £40-45k per annum

<sup>6</sup> The Board in total comprises nine members, a majority of five non-executive members (including the Chair), the Auditor General, an employee member appointed on the Auditor General's recommendation and two elected employee members.

<sup>7</sup> The Audit Wales Chair's post attracts a remuneration package of £25k per annum



The governance structure is as set out at figure 2.



**Figure 2 – Audit Wales Governance Structure**

The Board monitors the exercise of the Auditor General's functions. It provides the Auditor General with advice, employs staff and provides resources for the exercise of the Auditor General's functions, charges fees for work done by the Auditor General and prepares jointly with the Auditor General an estimate of income and expenses, an annual plan, interim report(s) and an annual report. The Board's duty is to provide collective leadership for Audit Wales in a manner that is compatible with the Auditor General's duties as Accounting Officer and his statutory functions.

The Board also ensures that the operational independence of the Office of Auditor General is preserved and is charged with maintaining standards of corporate governance of Audit Wales and exercising specific functions under the 2013 Act. It is supported by an Audit Committee and a Remuneration Committee.

The Finance Committee of the National Assembly scrutinises use of resources by Audit Wales and is responsible for the appointment of the non-executive members of the Board and the external auditor.

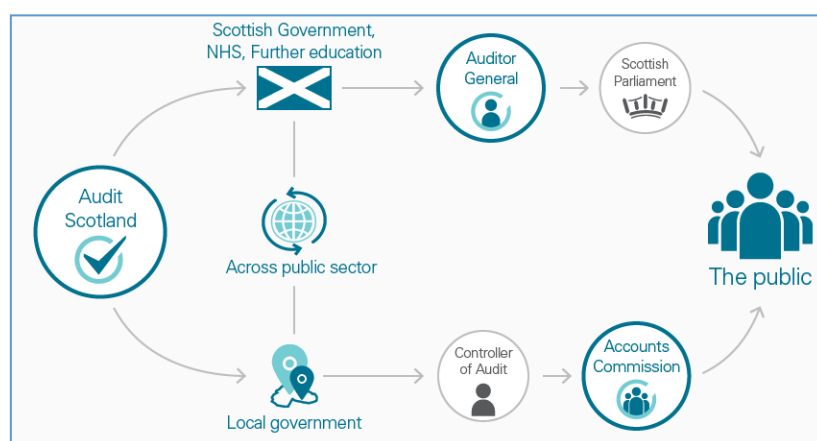
### 7.3 Audit Scotland

The Auditor General for Scotland is responsible for the audit of most public bodies, except local authorities. The Auditor General is appointed by the Queen, on the recommendation of the Scottish Parliament. The appointment is for a fixed term of **eight** years. The independent post was created under the Scotland Act 1998, prior to devolution in 2000, to help ensure that public money is spent properly, efficiently and effectively. As Accountable Officer, the Auditor General has responsibility for maintaining a sound system of internal control that supports the achievement of Audit Scotland's policies, aims and objectives. The office holder is also responsible for safeguarding the public funds and assets assigned to Audit Scotland, in accordance with the standard responsibilities of all other accountable officers in Public Bodies.

The Accounts Commission is the public spending watchdog for local government. It operates impartially and independently of councils and of the Scottish Government and meets and reports in public. It is responsible for coordinating and facilitating scrutiny in local government. The Controller of Audit is a statutory post established alongside the Commission in 1975. The Controller reports to the Commission and highlights areas of concern.

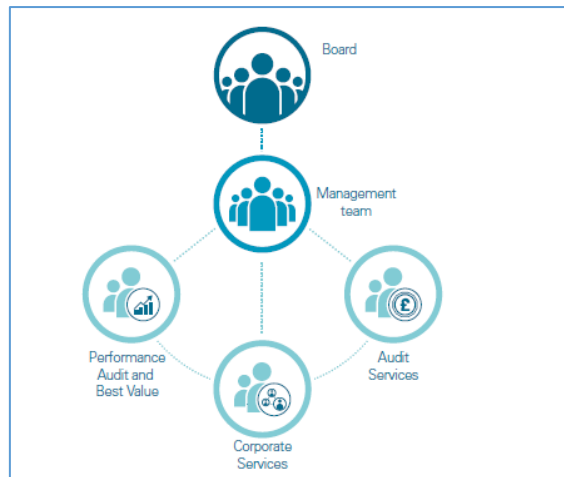
Audit Scotland provides the Auditor General and the Accounts Commission with the services they require. It gives independent assurance that public money is spent properly, efficiently and effectively.

The reporting arrangements in Scotland are set out in figure 3.



**Figure 3 – Audit Scotland Reporting Arrangements**

Audit Scotland has a Board which meets regularly to develop and monitor the plans and strategic direction of the organisation. Governance structures are summarised at figure 4:



**Figure 4 – Audit Scotland Governance Structure**

The Board has three independent non-executive members, including the Chair<sup>8</sup>, and also includes the Auditor General for Scotland and the Chair of the Accounts Commission for Scotland. The Board has agreed a framework which sets out the principles of partnership working between the Auditor General for Scotland, the Accounts Commission and Audit Scotland.

The Board has two standing committees. The Audit Committee recommends the appointment of its internal auditors, receives the annual accounts and internal audit reports and considers the risk management arrangements, receives regular updates on the corporate risk register, and reviews the annual assurances provided by management.

The Remuneration and Human Resources Committee sets and reviews the salaries of senior staff (excluding the Auditor General, whose salary is agreed by the Scottish Parliamentary Corporate Body) and the main terms and conditions for all staff. The committee takes advice from external advisors as required.

The Auditor General, the Accounts Commission and Audit Scotland are resourced mainly through audit fee income, which is topped up through funding from the Scottish Parliament.

Audit Scotland is held to account by the Scottish Parliament through statutory arrangements put in place by the Scotland Act 1998 and through the Public Finance and Accountability (Scotland) Act 2000. Its spending and use of resources are examined by the Scottish Commission for Public Audit (SCPA), a statutory body comprising five members of the Scottish Parliament which meets in public and reports to the Parliament.

<sup>8</sup> The Audit Scotland Chair's post attracts a remuneration package of £10-15k per annum

The SCPA appoints non-executive board members and the chair, scrutinises the budget, annual report and accounts, and produces reports on these. It also appoints the external auditors.

#### 7.4 Office of Comptroller and Auditor General

The Comptroller and Auditor General (C&AG) is appointed by the President on the nomination of Dáil Éireann. He/she holds office under Article 33 of the Constitution and may retain office **until the age of 70**. The C&AG is responsible for auditing the public accounts, undertaking examinations on the management and use of public resources and reporting the results of the work to Dáil Éireann. In this regard, the C&AG's mission is to provide independent assurance that public funds and resources are used in accordance with the law, managed to good effect and properly accounted for, and to contribute to improvement in public administration.

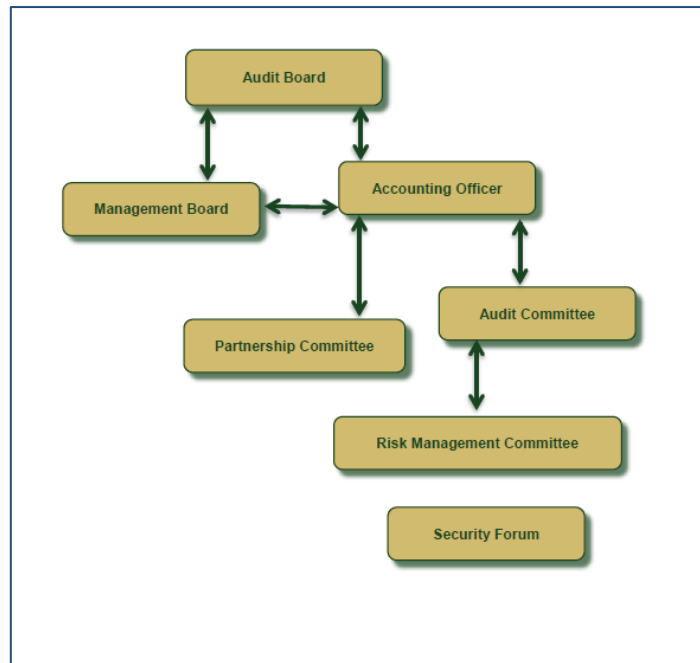
The C&AG is required by law to:

- issue opinions on the accounts of government departments and public bodies which are audited by him;
- publish reports on important matters selected at his discretion relating to value for money and the administration of public funds; and
- authorise, under the Comptroller function, the release of public money from the Exchequer for purposes specified by law.

The principal legislative provisions governing the powers and duties of the C&AG are set out in the Comptroller and Auditor General Act 1923 and the Comptroller and Auditor General (Amendment) Act 1993. Section 6 of the 1923 Act provides for the regulation by the C&AG of the conduct of the internal business of the Office of the Comptroller and Auditor General (OCAG). Section 16 of the 1993 Act permits the C&AG to delegate functions to an officer (other than the audit of the appropriation accounts of government departments and the making of certain reports).

The Secretary and Director of Audit, in her/his capacity as Accounting Officer, is responsible for the administration of funds and the system of internal financial control. She/he is assigned responsibility for preparing the annual Appropriation Account of the Office by the Minister for Public Expenditure and Reform, in accordance with Section 22 of the Exchequer and Audit Departments Act 1866.

The Accounting Officer is responsible to Dáil Éireann (through the PAC) for the proper expenditure of funds by the Office. The overall governance structure of the OCAG is set out in figure 5.



**Figure 5 - Governance Structure of the Office of the Comptroller and Auditor General**

**The Office of the Comptroller and Auditor General** assists the C&AG in his statutory functions and is staffed by civil servants. It is managed by:

- **Audit Board** – The Audit Board comprises the C&AG, the Secretary and the Directors of Audit. The remit of the Audit Board is to have overall responsibility for audit policy and all strategic and operational matters. In undertaking its role, it has regard to the work delegated to the Management Board. It meets a minimum of three times a year and as required. The business conducted at the Board, and actions required, are recorded in minutes which are published on the internal Office Notice Board. Other staff from the OCAG may be called to attend meetings as appropriate.
- **Management Board** – The Management Board comprises the Directors and Deputy Directors of Audit which co-ordinates the management and operation of the OCAG.
- **Partnership Committee** - The Committee comprises management and staff representatives with the purpose of advancing strategic objectives and contributing to the modernisation of the OCAG through consultation and the participation and co-operation of all concerned.
- **Audit Committee** - The Audit Committee comprises four external members, and the Secretary and Directors of Audit attend each meeting to support the Committee's work. The Committee operates under a written charter which is agreed with the Accounting Officer. It advises the Accounting Officer on all matters relating to risk management, internal control, governance and external reporting and also seeks to foster the development of best practice in

the conduct of internal audit, risk management and external reporting in the OCAG.

- **Risk Management Committee** - The Risk Management Committee, comprising the Directors of Audit, keeps the effectiveness of the risk management process under ongoing review. It presents an annual report of its activities and assessment of risk management to the Audit Committee.
- **Security Forum** – The Security Forum, which comprises the Secretary and Director of Audit, three Deputy Directors of Audit and the ICT Manager, oversees the implementation of security policies and plans

## 8. Peer Reviews

In a number of instances, SAIs in the UK and Ireland have conducted peer reviews, where experienced members of staff/ex staff from sister audit bodies were engaged to conduct reviews.

**Wales Audit Office** - In 2009, the WAO conducted a peer review, following significant concerns raised in a number of staff surveys.

This eventually led to the Public Audit Act 2013, which prescribed the continuance of the AGW, created a new corporate body, the Wales Audit Office, prescribed new governance arrangements for both the AGW and the WAO, prescribed how the functions of the AGW are to be exercised and made the AGW the auditor of local government bodies in Wales.

**Northern Ireland Audit Office** - A review of the NIAO's top structure in 2010, conducted by an ex NAO DC&AG, resulted in a number of changes, including:

- a reduction in the number of senior staff, with local government division combining with financial audit;
- the realignment of divisions to reflect client responsibilities rather than specialisms; and
- the recognition of committee meetings and Management Team Meetings as part of the formal governance of the NIAO.

**Office of the Comptroller and Auditor General (RoI)** - The Office of the Comptroller and Auditor General (RoI) has recently been subject to an independent external assessment of its performance against international standards and good practice.

In its report (published May 2020), the Peer Review Group noted a number of aspects of the statutory framework which may place constraints on the independence of the OCAG, including:

- the requirement to submit the OCAG's proposed budget to the Department of Public Expenditure and Reform (a Ministry audited by the C&AG) before it is approved by the Dáil; and

- the OCAG being part of the Civil Service and therefore bound by Civil Service rules on staffing and recruitment.

## 9. Corporation Sole

A corporation sole has been described as a [legal entity](#) consisting of a single ("sole") incorporated office, occupied by a single ("sole") natural person. Such a position may be established where the role of the postholder must be, and must be seen to be, independent and unfettered.

A pure corporation sole does not have a board; instead an individual fulfils the role of the board, supported by a senior management team, which facilitates the key decision-making within the organisation. The individual is also usually the Accounting Officer of the organisation for which they are responsible.

Examples include:

- The Comptroller and Auditor General (NI);
- The Comptroller and Auditor General (Westminster);
- The NI Public Sector Ombudsman;
- The Police Ombudsman for NI;
- The Commissioner for Victims and Survivors (NI); and
- The Commissioner for Children and Young People (NI)

More detail on the larger of these is set out below.

**Comptroller and Auditor General (NI)** - In keeping with Article 1 of the Audit (NI) Order 1987, the office of Comptroller and Auditor General 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. 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.

Section 65(1) of the Northern Ireland Act 1998 provides that the Comptroller and Auditor General for Northern Ireland is appointed as an Officer of the Assembly by the Queen on nomination by the Northern Ireland Assembly (i.e. not the Executive). Section 65(2) requires that a two-thirds majority of the Assembly is required to remove the incumbent from office. The independence to work in a self-determined manner is protected by section 65(3). Section 65(4) and 65(5) provide for the accounts of the NI Consolidated Fund to be audited by the C&AG, in accordance with the Exchequer and Audit Act (Northern Ireland) 1921. Under section 65(6), the Assembly has no power to reduce the salary payable to the C&AG. Under the Audit Order (NI) 1987 section 4 (4A), the C&AG must retire at the age of 65; this does not comply with modern NI age discrimination legislation.

The Northern Ireland Act 1998 section 66(1) also made provision for the establishment of the NIAAC, which underpins the most important of the principles of public audit i.e. the independence of public sector auditors from the organisations being audited and the objectivity of the auditor. The committee meets to scrutinise and approve the NIAO Estimates and Corporate Plan. The NIAAC has a role in appointing the C&AG and once a year puts a motion before the Assembly to approve his/her salary. The remuneration package is charged on and paid out of the Consolidated Fund.

Under Article 6(4) of the 1987 Audit Order, the Department of Finance (DoF) is required to appoint an external auditor for the NIAO acting on advice from the Audit Committee of the Northern Ireland Assembly. In addition to carrying out a financial audit of the NIAO's accounts, the appointed auditor also has the power to examine the economy, efficiency and effectiveness of the use of resources by the NIAO. Given the status of the C&AG as a corporation sole, and the widespread acknowledgement that he/she should be independent from government, it would seem to be an anomaly that a ministerial department is responsible for appointing the external auditor for the NIAO.

**Comptroller and Auditor General (England)** - Under the Budget Responsibility and National Audit Act 2011 (the Act) the C&AG is appointed by the Queen by Letters Patent, following an address presented by the House of Commons. The Prime Minister moves the motion for that address with the agreement of the chair of the PAC. Because by convention the chair of the Public Accounts Committee is from an opposition party, this requirement means that the choice of C&AG requires cross-party agreement. The term of office is limited to a single ten-year appointment. The Act confirms the status of the C&AG as a corporation sole and officer of the House of Commons. The C&AG may not be a member of the House of Lords, is not to be regarded as a servant or agent of the Crown, and may not hold any other position to which a person may be appointed by or on the recommendation of the Crown. Remuneration arrangements are made in advance of appointment by the Prime Minister and the Public Accounts Committee chair, and will be charged on and paid out of the Consolidated Fund, with no need for the resources to be voted annually by Parliament. The C&AG may resign from office by giving written notice to the Prime Minister and can only be removed from office following an address of both Houses of Parliament to the Queen.

The Act established a new corporate body, the National Audit Office (NAO). Its Board has nine members - five non-executive members, the Comptroller and Auditor General and three employees of NAO. Previously composed of the C&AG (who is a corporation sole) and the staff appointed by him, the corporate NAO is a separate legal entity with a newly-established governance structure and constitution, and functions which include providing resources for the C&AG.

The NAO is funded from money voted annually by Parliament for that purpose. To this end, the NAO and the C&AG must jointly prepare an estimate of the resources which the NAO requires for each financial year and submit the estimate to the Public Accounts Commission. The Commission must review the estimate and lay it before the



House of Commons with any modifications that it thinks appropriate. In doing this, the Commission must have regard to any advice given by the Public Accounts Committee or the Treasury.

**The Police Ombudsman for Northern Ireland** - The role of Police Ombudsman for Northern Ireland was established under the Police (Northern Ireland) Act 1998. The Police Ombudsman is appointed by Her Majesty, as a named person for a fixed term of seven years. The status of this authority is that of corporation sole. The Police Ombudsman is accountable to the Northern Ireland Assembly, through the Minister for Justice. The Ombudsman's function is to secure the efficiency, effectiveness and independence of the police complaints system, and the confidence of the public and of members of the police force in that system.

The Office of the Police Ombudsman (the Office) was established on 6 November 2000 by virtue of the Police (Northern Ireland) Act 1998 (Commencement) Order (Northern Ireland) 2000. The Office is an executive Non Departmental Public Body of the Department of Justice (DoJ). The Office is not governed by a Board, but is headed by a Police Ombudsman as a corporation sole who is appointed by Royal Warrant and normally serves for a period of seven years. The Office is constituted and operates independently of the Department of Justice, the Northern Ireland Policing Board and the Police Service of Northern Ireland. The Office is accountable to the Northern Ireland Assembly and is required to take into account all relevant guidance given by DoF and the DoJ. The Office has no Board function.

The Management Statement and Financial Memorandum with the DoJ sets out the Office's overall aim, the rules and guidelines relevant to the exercise of the Office's functions, duties and powers, the condition under which any public funds are paid to the Office and how the Office is to be held to account for its performance.

**Northern Ireland Public Services Ombudsman** – The role of the Northern Ireland Public Services Ombudsman was established under the Public Services Ombudsman Act (Northern Ireland) 2016 as a corporation sole. The legislation clarifies that the Ombudsman is not subject to the direction or control of a Minister, the Secretary of State, a Northern Ireland department, the Assembly, or the Assembly Commission. However, the Ombudsman is subject to the power of the Assembly Commission to determine the salary, pension and terms of appointment of the Ombudsman. The Assembly has the power to request Her Majesty to remove the Ombudsman from office if it has the support of two thirds of the members of the Assembly.

The Ombudsman is appointed by Her Majesty, on the nomination of the Assembly, for a single seven year term. The responsibility for arrangements around this process rests with the Assembly Commission.

The Ombudsman has the power to appoint staff, and determine their terms and conditions, salaries and pensions. Such staff are not regarded as civil servants. Similar to the C&AG, estimates must be submitted to the NIAAC and must be agreed between that committee and the Ombudsman, and laid before the Assembly by that

committee. The Office of the Public Services Ombudsman for Northern Ireland has no Board function.

## 10. Conclusion and Way Forward

The current governance structure and operating mechanisms of the NIAO are transparent and effective. There are however the following five points which should be considered to determine if further change would be appropriate to ensure the governance model is in step with best practice and the underpinning arrangements are up to date:

1. A corporation sole is an arrangement which remains relevant and current in certain circumstances, such as the role of Comptroller and Auditor General. However, in other audit institutions, the role is supported and challenged by an Executive Board overseeing operations, whereas the NIAO currently has an Advisory Board. This a matter for the NI Assembly, rather than the Office to consider. However, any consideration should take into account the adequacies of the checks and balances at the top of the NIAO, proportionality and the maintenance of the independence of the C&AG's role.
2. In the other UK jurisdictions there are fixed term tenures for C&AGs (Westminster 10 years; Scotland 8 years; Wales 8 years). In Northern Ireland, under the Audit (NI) Order 1987, the C&AG has no fixed term, but must retire from the post at 65 (in a similar arrangement, the C&AG in the Republic of Ireland can remain in post until 70). This is a matter for the NI Assembly to consider.
3. As set out at paragraph 5.8, the appointment of the Local Government Auditor (LGA) is quite unusual. It provides separate accountability arrangements to the ratepayer, through the LGA, and the taxpayer, through the C&AG, but creates some potential for accountability gaps where functions reach across both central and local government.

In contrast, Wales, a region with a larger population and geographical area than Northern Ireland, has appointed a single public auditor whose responsibility includes the local government sector. Consideration should be given as to whether there should be a single auditor for the public sector.

4. The Memorandum of Understanding between the NIAAC and the NIAO is outdated.
5. There is an anomaly in that the Department of Finance appoints the external auditor for the NIAO.

During the drafting of this paper, the NIAAC initiated a review of the governance and accountability arrangements for the NIAO and the NI Public Services Ombudsman. As part of its work it has commissioned an Assembly research paper on public audit governance. The NIAAC review should be well placed to consider the points set out above.

### Independent Commission on Good Governance in Public Services (2005)

Each of the six principles were further defined as follows:

#### **1. Focusing on the organisation's purpose and on outcomes for citizens and service users**

- Being clear about the organisation's purpose and its intended outcomes for citizens and service users
- Making sure that users receive a high quality service
- Making sure that taxpayers receive value for money

#### **2. Performing effectively in clearly defined functions and roles**

- Being clear about the functions of the governing body
- Being clear about the responsibilities of non-executives and the executive, and making sure that those responsibilities are carried out
- Being clear about relationships between governors and the public

#### **3. Promoting values for the whole organisation and demonstrating the values of good governance through behaviour**

- Putting organisational values into practice
- Individual governors behaving in ways that uphold and exemplify effective governance

#### **4. Taking informed, transparent decisions and managing risk**

- Being rigorous and transparent about how decisions are taken
- Having and using good quality information, advice and support
- Making sure that an effective risk management system is in operation

#### **5. Developing the capacity and capability of the governing body to be effective**

- Making sure that appointed and elected governors have the skills, knowledge and experience they need to perform well
- Developing the capability of people with governance responsibilities and evaluating their performance, as individuals and as a group
- Striking a balance, in the membership of the governing body, between continuity and renewal

#### **6. Engaging stakeholders and making accountability real**

- Understanding formal and informal accountability relationships
- Taking an active and planned approach to dialogue with and accountability to the public
- Taking an active and planned approach to responsibility to staff
- Engaging effectively with institutional stakeholders

### 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 wellbeing 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.

*Signed by Mr Kieran Donnelly, Comptroller and Auditor General, and Mr David Hilditch MLA, Deputy Chair of the Audit Committee of the Northern Ireland Assembly, on Tuesday 30th June 2015.*

### **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.

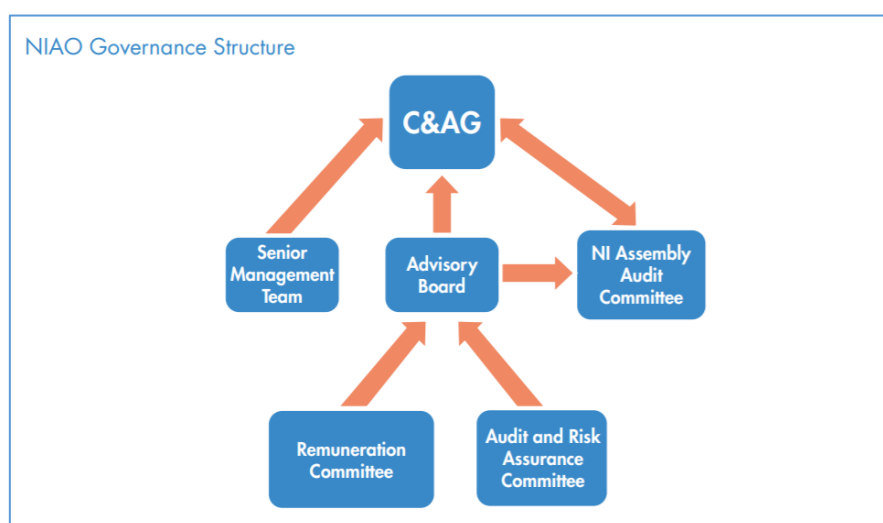
## Northern Ireland Audit Office (NIAO) Advisory Board Terms of Reference

### 1. Constitution and Purpose

The Advisory Board is responsible for providing objective and impartial advice to the Comptroller and Auditor General (C&AG) to assist him in the discharge of his functions and works in partnership with the Comptroller and Auditor General and the Senior Management Team. The Board scrutinises the work of the NIAO in the five areas of strategic clarity, commercial sense, talented people, results focus and management information, as set out in 'Corporate governance in central government departments: Code of good practice NI 2013' issued by DoF, with the objective of providing constructive challenge. It also scrutinises and advises on Office finances on an ongoing basis.

### 2. Membership

The Advisory Board, as set out in the governance structure below, comprises both executives (C&AG and Chief Operating Officer (COO)) and non-executive members, the latter bringing an independent and external perspective to the work of the Board.



The Chairperson of the Advisory Board is appointed by the C&AG through open competition, based on merit, following endorsement by the Audit Committee of the Assembly. Non-executive members will be similarly engaged and will be members of the Advisory Board. The appointment panel for the chairperson competition will comprise, as a minimum, three persons, including a member of the Audit Committee of the Northern Ireland Assembly and the C&AG. For non-executive members, it will similarly comprise three persons as a minimum, including the C&AG and the Chairperson of the Advisory Board.

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.

At least one non-executive should have recent and relevant financial experience. The Chairperson and the C&AG will identify the other skills required which should inform the appointment of non-executives. The required skills set should be reviewed periodically.

[In light of recent changes to our governance structure, these arrangements will be reviewed in detail when the NI Assembly returns]

### **3. Responsibilities**

The Advisory Board advises and challenges the C&AG on the key business areas, as set out in section 1 above. Under the guidance of the Chairperson, the Advisory Board will:

- (1) provide effective strategic advice to the C&AG in the delivery of his/her responsibilities;
- (2) bring independence of thought, informed by experience gained from outside of the Northern Ireland Audit Office;
- (3) provide advice in the development and implementation of the Northern Ireland Audit Office's business transformation programme;
- (4) advise the C&AG on the use of resources providing challenge, advice and rigour to the decision-making process; and
- (5) advise the C&AG on the delivery of the Northern Ireland Audit Offices objectives.

The Chairperson will agree a forward programme of work in consultation with the Board which will be documented in the minutes of the Advisory Board meetings. The programme should aim to cover the five areas noted above (as detailed in the Senior Management Team's (SMT) Terms of Reference), but will be kept under regular review and amended as necessary to prioritise matters of a topical or urgent nature on which the C&AG seeks the Board's advice.

### **4. Access**

The Chairperson of the Advisory Board will have access to the Chairperson of the Audit Committee of the Northern Ireland Assembly.

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

### **5. Meetings**

The Advisory Board will normally meet at least four times a year. The Chairperson of the Board may convene additional meetings, if necessary. The C&AG may also ask the Advisory Board to convene further meetings to discuss particular issues on which he wants the Board's advice.

A minimum of two non-executives and one executive member of the Advisory Board must be present for the scheduled meeting to be deemed quorate. If appropriate, a meeting may be conducted by conference call. Non-executives members will have free and confidential access to the C&AG and may also meet informally without executive members at any time outside of scheduled meetings. The Advisory Board may meet in private, if necessary. If any member is unable to attend a meeting, the Chairperson will brief them on the business conducted.

In the event of extenuating circumstances preventing the Chairperson from participating in any Advisory Board meeting, members of the Board will select a non-executive to fulfil chairing duties for that meeting.

The Advisory Board may ask any other officials of the Office to attend to assist with its discussions on any particular matter.

## **6. Information Requirements**

A member of NIAO Corporate Services will provide secretariat support to the Advisory Board. Papers required will be with members at least five working days in advance of the meeting. Standing agenda items are:

1. Apologies;
2. Declaration of conflicts of interest;
3. Minutes of previous meeting held and matters arising; and
4. A report on strategic financial management and budgeting.

The business conducted at the Advisory Board, and actions required, are recorded in minutes prepared by the secretariat. The draft Advisory Board minutes will be circulated within two weeks of the meeting to the members and agreed at the next meeting of the Board.

## **7. Conflicts of Interest and Conduct**

Advisory Board members will apply the principles of public service as set out in the NIAO Code of Conduct. This will include advising of any external interests which may conflict with duties and responsibilities in accordance with NIAO Code of Conduct arrangements.

## **8. Reporting**

Following approval of the minutes, they will be made available on the NIAO website except for any minutes of private meetings. Issues raised in the Advisory Board may also be communicated through the Office's internal communication channels to staff.

The remuneration, expenses and hospitality of members of the Board will be published by the Office.

## **9. Review and Approval**

This Terms of Reference will be reviewed by the Board at least annually and presented to the C&AG for approval.

Chair's Signature

Date

C&AG's Signature

Date



## **Northern Ireland Audit Office (NIAO)**

### **Audit and Risk Assurance Committee Terms of Reference**

#### **1. Constitution and Purpose**

The Comptroller and Auditor General (C&AG), as the Accounting Officer of the Northern Ireland Audit Office (NIAO), is responsible for ensuring that there are effective arrangements for governance, risk management and internal control.

The Advisory Board supports the C&AG in this role by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report.

To provide support in these functions, the Board shall establish an Audit and Risk Assurance Committee to review the comprehensiveness of assurances on systems of internal control, risk management and corporate governance. The Audit and Risk Assurance Committee is independent of all NIAO operational activities.

#### **2. Membership**

The Audit and Risk Assurance Committee comprises three non-executive Board members of NIAO, excluding the NIAO Board Chairperson.

The Chairperson of this Committee will be appointed by the Board Chairperson.

A member of NIAO Corporate Services will provide the Audit and Risk Assurance Committee with a secretariat function.

#### **3. Responsibilities**

The Audit and Risk Assurance Committee will support the Board in advising the C&AG as Accounting Officer in the following areas:

- the strategic processes for risk, control and governance and the Governance Statement;
- 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;
- a summary of whistleblowing, grievances, complaints and disciplinary cases;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to 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;

- proposals for tendering for Internal Audit services<sup>9</sup> or for purchase of non-audit services from contractors who provide audit services;
- anti-fraud policies, whistleblowing processes and arrangements for special investigations; and
- the Audit and Risk Assurance Committee will also annually review its own effectiveness and report the results of that review to the Board.

On the advice of the Board, informed by the Audit and Risk Assurance Committee, the C&AG will be responsible for the appointment of the Internal Auditor.

#### **4. Resourcing**

Subject to the budgets agreed by the C&AG with the Board, the Audit and Risk Assurance Committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience;
- select and appoint specialist ad-hoc advice at the expense of the NIAO; and
- avail of suitable induction training and continuous professional development training for members.

The Committee is authorised to investigate any activity within its terms of reference and to seek any information it requires to carry out its duties.

#### **5. Access**

Internal Audit and External Audit will have free and confidential access to the Chairperson of the Audit and Risk Assurance Committee.

The Chairperson will report on the business of the Committee to the Advisory Board.

#### **6. Meetings**

The Audit and Risk Assurance Committee will meet at least four times a year (potentially including a workshop). The Chairperson of the Committee may convene additional meetings, as deemed necessary.

A minimum of two members of the Audit and Risk Assurance Committee must be present for the meeting to be deemed quorate.

In the event of any member being unable to attend a meeting, the Chairperson will brief them on the business conducted. If the Chairperson is unable to attend a Committee meeting, the two remaining members will decide who undertakes chairing duties for that meeting.

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<sup>9</sup> The External Auditor for NIAO is appointed by the Department of Finance in accordance with Schedule 2 of The Audit Northern Ireland Order 1987

The C&AG may attend meetings of the Audit and Risk Assurance Committee. The Chief Operating Officer, the Director of Corporate Services, and representatives from Internal and External Audit will normally attend meetings of the Committee.

The Committee may ask any other officials of the Office to attend to assist with its discussions on any particular matter.

The Committee will have a private meeting, at least annually, with Internal Audit and External Audit.

## **7. Information Requirements**

For each meeting of the Audit and Risk Assurance Committee, the Chairperson shall confirm the agenda with the secretariat.

### **Standing agenda items are:**

- draft minutes from the previous meeting to be approved;
- a schedule of matters arising and progress made since the previous meeting;
- an opportunity for members to declare any conflicts of interest on agenda items;
- a report summarising any significant changes to the organisation's strategic risks and a copy of the Corporate Risk Register;
- Internal Audit reports and any key issues emerging;
- a progress report on implementing Internal Audit recommendations; and
- a progress report (written/verbal) from External Audit summarising work done, emerging findings and progress on the implementation of external audit recommendations;

### **As and when appropriate the Committee will be provided with:**

- the draft Internal Audit strategy;
- Internal Audit's Annual Opinion and Report;
- quality assurance reports on the internal audit function;
- the draft annual report and accounts, including all appropriate assurance statements;
- the draft Governance Statement;
- a report on any changes to accounting policies;
- the draft External Audit Strategy and plan;
- External Audit's management letter;
- a report on proposals for tender for audit functions (as necessary);
- the risk management strategy;
- anti-fraud policies;
- disaster recovery, contingency and crisis planning;
- management assurance reports;
- an annual report on the management of major incidents, "near misses" and lessons learned;
- a report on the external quality assurance of NIAO (ISQC1 and Transparency Annual Report – financial and public reporting); and

- any other papers or issues materially relevant to the work of the Audit and Risk Assurance Committee or deemed appropriate to be brought before the Committee.

An annual programme of work will be prepared which will define the frequency with which information should be reported.

The draft minutes will be circulated to Committee members within two weeks of the meeting and agreed formally at the next meeting of the Committee. Papers required will be with members at least five working days in advance of the meeting.

## **8. Conflicts of Interest and Conduct**

Audit and Risk Assurance Committee members will apply the principles of public service as set out in the NIAO Code of Conduct. This will include advising of any external interests which may conflict with duties and responsibilities in accordance with NIAO Code of Conduct arrangements.

## **9. Reporting**

Once approved by the Committee, the Minutes of Audit and Risk Assurance Committee meetings will be provided to the Board and published on the NIAO website.

The Committee will provide an Annual Report to the Board, timed to support finalisation of the NIAO Annual Report and Accounts and the Governance Statement. The Committee's report will summarise its conclusions from the work it has done during the year. The report contents will align with best practice.

## **10. Review and Approval**

This Terms of Reference will be reviewed by the Audit and Risk Assurance Committee at least annually and presented to the Board for approval.

Advisory Board Chairperson  
signature

Date

C&AG's Signature

Date

## Northern Ireland Audit Office (NIAO) Remuneration Committee Terms of Reference

### 1. Constitution and Purpose

The Comptroller and Auditor General (C&AG), as the Accounting Officer of the Northern Ireland Audit Office (NIAO), is responsible for ensuring that there are effective arrangements for governance, risk management and internal control.

The Advisory Board (The Board) supports the C&AG in this role by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report.

The Board has delegated to the Remuneration Committee responsibility for advising on matters falling within the scope of its responsibilities as set out in these Terms of Reference.

### 2. Membership

The Remuneration Committee comprises all non-executive Board members of NIAO. The Chairperson of this Committee will be appointed by the Board Chairperson.

A member of NIAO Corporate Services will provide the Remuneration Committee with a secretariat function, normally the Human Resources Manager.

### 3. Responsibilities

The Remuneration Committee will support the Board in advising the C&AG as Accounting Officer in the following areas:

In relation to members of NIAO's Senior Management Team, to advise on:

- terms & conditions of employment, including job descriptions and pay settlements;
- talent management and succession planning arrangements;
- remuneration for newly appointed members of the Senior Management Team;
- applications for early retirement; and
- compensation payments for loss of office.

In relation to any other staff employed by NIAO, to advise on:

- terms and conditions of employment;
- the alignment of pay settlements with policies implemented by the wider public sector;
- the remuneration arrangements governing all terms & conditions of employment, including pay, benefits, retirement policy and other policies relating to compensation for loss of office; and

- the application of remuneration policy on an annual basis. For example, the outturn of the annual pay award.

The Remuneration Committee may also advise the Board and C&AG on issues relating to structural change exercises such as organisational development, job evaluation and role reviews.

When undertaking its responsibilities the Remuneration Committee will ensure it applies equality, clarity, proportionality and fairness.

#### **4. Resourcing**

Subject to the budgets agreed by the C&AG with the Board, the Remuneration Committee may:

- select and appoint specialist ad-hoc advice at the expense of the NIAO; and
- avail of suitable induction training and continuous professional development training for members.

The Committee may undertake any activity within its terms of reference and to seek any information it requires to carry out its duties.

#### **5. Access**

The following parties will have free and confidential access to the Chair of the Remuneration Committee:

- any externally appointed specialist advisor(s); and
- the Human Resources Manager.

The Chairperson will report on the business of the Committee to the Advisory Board.

#### **6. Meetings**

The Remuneration Committee will meet as required, but at least once per year. The core work programme is as attached to these terms of reference (Appendix A). The Chair of the Committee may convene additional meetings as he/she deems necessary.

A minimum of two members of the Remuneration Committee will be present for the meeting to be deemed quorate. If the Chair cannot be present, the members must appoint one of the other members to preside at the meeting.

Remuneration Committee meetings will normally be attended by the Chief Operating Officer, the Director of Corporate Services, the Human Resources Manager and, where appropriate, a representative of any appointed external advisor(s). The Remuneration Committee may ask any other officials of NIAO to attend to assist it with its discussions on any particular matter. The Remuneration Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters.

The Board or C&AG may ask the Remuneration Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

## **7. Information Requirements**

For each meeting of the Remuneration Committee, the Chairperson shall confirm the agenda with the secretariat. The agenda and supporting papers will be sent out at least five working days in advance of meetings. All papers will clearly state the author, the purpose of the paper and the action the Committee is asked to consider.

Formal minutes will be taken of the proceedings of the Remuneration Committee. These draft minutes shall be distributed for consideration and review, to the Chair of the Meeting within five working days of the meeting and distributed to Committee members within ten working days of the meeting.

## **8. Conflicts of Interest and Conduct**

Remuneration Committee members will apply the principles of public service as set out in the NIAO Code of Conduct. This will include advising of any external interests which may conflict with duties and responsibilities in accordance with NIAO Code of Conduct arrangements.

## **9. Reporting**

Following review by the Chair, the draft minutes will then be presented at the next Remuneration Committee or Board meeting, whichever comes sooner, for approval. In any event, all Remuneration Committee minutes will be presented to the Board for approval.

## **10. Review and Approval**

This Terms of Reference will be reviewed by the Remuneration Committee annually and presented to the Board for approval.

Advisory Board Chairperson signature

Date

C&AG's Signature

Date

### Work Programme for the Remuneration Committee

- Review and advise on the strategy to be used as the basis for negotiation between NIAO's negotiating team and trade union side;
- Review the overall impact upon the pay bill of the proposals made by NIAO Management Team in respect of the annual pay awards.
- Review overall outturn of all awards following the last annual pay award cycle; and
- Agree future priority areas for consideration and prepare report for the Board and C&AG.



### Senior Management Team Terms of Reference

#### 1. Constitution and Purpose

The Senior Management Team is responsible for the strategic and operational leadership of the NIAO. Subject to the C&AG's statutory position as Corporation Sole and his primacy in setting strategy, policy and procedures, it is the principal mechanism for directing the business and decision making in the NIAO.

#### 2. Membership

The Senior Management Team comprises:

- the Comptroller and Auditor General (C&AG);
- the Chief Operating Officer (COO); and
- the Directors.

The meeting will be chaired by either the C&AG or the COO. A minimum of four members must be present for the meeting to be deemed quorate.

#### 3. Responsibilities

The Senior Management Team assists the C&AG in the delivery of the key business areas of the Office. Based on the proportionate application of the 'Corporate governance in central government departments: Code of good practice NI 2013', its responsibilities are categorised as follows:

##### Strategic Clarity

- Setting strategies, plans and policies in accordance with the C&AG's direction.

##### Commercial Sense

- Financial and resource management.
- Governance arrangements.
- Risk management, including the identification and management of key risks.

##### Talented People

- Ensuring the Office has the capability and capacity to deliver and to plan to meet current and future needs.

##### Results Focus

- Monitoring performance against corporate, business and operational strategies, plans and policies.

##### Management Information

- Ensuring clear, consistent and comparable information is used to support the decision making process and drive improvements.

#### 4. Decisions

Subject to the primacy of the C&AG, matters that will always be dealt with by the Senior Management Team include the following:

- Corporate/business planning, including KPIs;
- Operational strategies, policies and plans, including but not limited to:
  - HR strategy, including performance management;
  - Learning and development strategy;
  - Digital Services Strategy;
  - Risk management strategy;
  - Anti-fraud strategy;
  - Workforce Planning;
  - Quality assurance;
  - Business continuity planning;
  - Health and safety policy; and
  - Equality Scheme;
- Audit methodology/approach;
- Stakeholder Engagement;
- Budgeting;
- Annual report and accounts, including governance statement;
- Performance monitoring;
- Corporate risk register and notification of escalating risk to Audit Committee;
- Corporate projects, including change management, business improvement and restructuring initiatives; and
- Corporate governance arrangements.

To support the C&AG's statutory responsibility as a Corporation Sole it is the responsibility of every other member of the Senior Management Team, at meetings of the Team, to provide the C&AG with comprehensive advice.

## **5. Information Requirements**

Main categories of information to be considered at Senior Management Team meetings:

- Progress against corporate/business plan milestones and metrics;
- Performance against key efficiency metrics;
- Progress and status of major projects;
- Risk management;
- Financial management, including use of resources compared to budgets;
- Internal audit reports and other assurance/compliance reviews; and
- Monitoring information on Freedom of information requests, MLA enquiries, concerns raised by whistleblowers etc.

## **6. Meetings**

The Senior Management Team should normally meet on a monthly basis. The C&AG may convene additional meetings, as necessary. If appropriate, a meeting may be conducted by conference call.

In the event of extenuating circumstances preventing the C&AG from participating in any Senior Management Team meeting, the COO will fulfil chairing duties for that meeting.

The Senior Management Team with the agreement of the C&AG/COO may ask any other officials of the Office to attend to assist with its discussions on any particular matter.

## **7. Secretariat Support**

A member of the Business Support Team will provide secretariat support to the Senior Management Team. For each meeting of the Senior Management Team, the Business Support Team will agree an agenda with the SMT members in advance.

The C&AG will have the final say in the decisions about what business will be taken at any particular meeting.

For each meeting, the agenda and supporting papers should normally be disseminated at least two clear working days in advance. The business conducted at the meeting, and actions required, are recorded in minutes prepared by the Business Support Team. The draft Senior Management Team minutes are circulated within a week of the meeting to the members and agreed at the next meeting of the Senior Management Team.

## **8. Conflicts of Interest and Conduct**

Senior Management Team members will demonstrate leadership by promoting agreed values and behaviour standards. They will advise of any external interests that may conflict with duties and responsibilities in accordance with NIAO Code of Conduct arrangements.

## **9. Reporting and communications**

Minutes of all meetings will be made available on both the NIAO website and sent to Non-executive members. The Senior Management Team will inform the Audit and Risk Committee and Advisory Board on an ongoing basis of matters relevant to their remit. Significant issues such as risk escalation will be reported promptly.

## **10. Review and Approval**

These Terms of Reference will be reviewed in April 2020 by the Senior Management Team.

C&AG's Signature

Date

## **Governance: Senior Management Team**

### **1. Membership**

- a. C&AG
- b. COO
- c. Directors

### **2. Key functions**

- a. Organisational leadership
- b. Strategy development
- c. Business planning
- d. Overview of key initiatives
- e. Staff communications
- f. Budget management
- g. Performance reviews
- h. Quality management
- i. Change management
- j. Stakeholder management

### **3. Meeting**

- a. Monthly
- b. 2 hours

### **4. Process: Formal**

### Operational Management Team Terms of Reference

#### 1. Purpose

The Operational Management Team (OMT) is responsible for the delivery of the key business areas of the Office, as set by the Senior Management Team (SMT) below:

##### Strategic Clarity

- Planning and managing strategies, plans and policies in accordance with the C&AG's direction.

##### Commercial Sense

- Planning and controlling financial and resource management.
- Ensuring governance arrangements are operating appropriately.
- Risk management -the identification, evaluation and management of key risks.

##### Talented People

- Planning to ensure the Office has the capability and capacity to deliver and to plan to meet current and future needs.

##### Results Focus

- Effecting and monitoring performance against corporate, business and operational strategies, plans and policies.

##### Management Information

- Providing clear, consistent and comparable information for use in the decision making process and to help drive improvements.

#### 2. Membership

OMT comprises:

- the Chief Operating Officer (COO); and
- the Directors.

The COO has responsibility for the efficient and effective running of OMT.

A minimum of three members must be present for the meeting to be deemed quorate.

### 3. Remit

Subject to the primacy of the C&AG, matters to be considered by OMT include the following:

- Business planning, including KPIs;
- Operational strategies, policies and plans, including but not limited to:
  - HR strategy, including performance management;
  - Learning and development strategy;
  - Digital Services Strategy;
  - Risk management strategy;
  - Anti-fraud strategy;
  - Workforce Planning;
  - Quality assurance;
  - Business continuity planning;
  - Health and safety policy; and
  - Equality Scheme;
- Audit methodology/approach;
- Stakeholder Engagement;
- Budgeting;
- Annual report and accounts, including governance statement;
- Performance monitoring;
- Corporate risk register and notification of escalating risk to SMT; and
- Change management, business improvement and restructuring initiatives.

### 4. Information Requirements

Main categories of information to be monitored, reviewed and addressed, as required, at OMT meetings:

- Progress against corporate/business plan milestones and metrics;
- Progress in change management initiatives;
- Progress and status of major projects;
- Risk management;
- Financial management, including use of resources compared to budgets;
- Terms of Reference for Internal Audit Reviews and draft internal audit reports and other assurance/compliance reviews; and
- Monitoring information on Freedom of information requests, MLA enquiries, concerns raised by whistleblowers etc.

### 5. Meetings

The OMT should normally meet on a weekly basis. The COO will chair the meetings. The COO may convene additional meetings, as necessary. If appropriate, a meeting may be

conducted by conference call. If any member is unable to attend a meeting, the COO will brief them on the business conducted.

In the event of extenuating circumstances preventing the COO from participating in any OMT meeting, the COO will nominate a chairperson.

OMT may ask any other officials of the Office to attend to assist with its discussions on any particular matter.

OMT members may propose agenda items; however the COO will have the final say in determining the business to be conducted at any particular meeting.

## **6. Conflicts of Interest and Conduct**

OMT members will demonstrate leadership by promoting the NIAO's values and behaviour standards. They will advise of any external interests that may conflict with duties and responsibilities in accordance with NIAO Code of Conduct arrangements.

## **7. Record of meeting**

An action log is retained detailing actions arising from each meeting.

## **8. Reporting and communications**

OMT will inform the C&AG through the Senior Management Team on an ongoing basis of matters relevant to their remit. Significant issues will be reported promptly by the COO to the C&AG.

## **9. Review and Approval**

These Terms of Reference will be reviewed in April 2020 by the Operational Management Team.

COO's Signature

Pamela McCreedy

Date

C&AG's Signature

Kieran Donnelly

Date