

# Audit and Risk Assurance Committee's Annual Report 2016/17

## 1. Background.

- 1.1 This paper reviews the performance of the Audit and Risk Assurance Committee (ARAC) for 2016/17, extracts of which are to be included within the Public Services Ombudsman for Wales's Annual Report & Accounts for the year ended 2016/17.
- 1.2 The primary role of the Committee is to provide independent advice to the Public Services Ombudsman for Wales to assist him to discharge his responsibilities as Accounting Officer. During the year the Committee has monitored the strategic processes for risk, control and governance supplemented by the results of internal and external audits. The Committee played a key role in defining aspects of the audit work and monitoring the management response to the issues raised

## 2. Terms of Reference

- 2.1 The ARAC is a sub-committee of the PSOW's Advisory Panel. The Panel advises the Ombudsman on the ARAC's Terms of Reference. These were last reviewed and revised in December 2016. The revised and current Terms of Reference are attached (Appendix A).

## 3. Membership

- 3.1 **Independence:** During the year all the ARAC meetings have been chaired by William Richardson who, as the former deputy chief executive at the Office of the Parliamentary and Health Service Ombudsman, brings considerable experience of operating governance, financial and administrative systems within the context of an ombudsman scheme. As regards the other independent members on the Committee John Williams, has a breadth of governance experience both as a former County Council Director of Social Services and previous and current positions on the Boards and Audit Committees of public service providers. The Committee also benefited from the experience Sharon Warnes, who was previously Assistant Director/Senior Policy & Performance Manager at Gwynedd Council. The benefit of appointing an additional member was also evident during the year, as a result of Jonathan Morgan joining the Committee in March 2016. Mr Morgan's experience as an Assembly Member for 12 years, including being a former chair of the National Assembly's Public Accounts Committee, brought a valuable added dimension to the ARAC's discussions.
- 3.2 **ARAC Member Attendance:** Attendance at meetings by Committee Members during the year was as follows:

<b>Committee Member</b>	<b>No. of attendances</b>
William Richardson (Chair)	4
Jonathan Morgan	2
Sharon Warnes	4
John Williams	4

- 3.3 **Other Attendance:** The meetings were also regularly attended both by external auditors (the Wales Audit Office) and internal auditors (Deloitte) as well as relevant members of the PSOW's Management Team.
- 3.4 **Conflicts of interest:** As a member of the Advisory Panel each member of the Committee completes an annual declaration of interests. The information provided is used to compile the Register of Interests, which is available for inspection by members of the public upon request. In addition the first agenda item for any ARAC meeting allowed for the declaration of any interest specific to the agenda items for that meeting.
- 3.5 **Appointment period:** All the appointments are for a fixed term and are covered by letters of appointment.

#### **4. Training**

- 4.1 Members of the Committee are invited to assess their training needs annually. An induction programme is provided for all members of the Advisory Panel, which includes Audit and Risk Assurance Committee induction as appropriate. During the year William Richardson attended a workshop of chairs of Audit and Risk Assurance Committees facilitated by Wales Audit Office. This was useful for networking and sharing best practice and information.
- 4.2 In addition, arrangements were made for Sharon Warnes and Jonathan Morgan to attend CIPFA's Effective Audit Committee' course during 2016/17. Unfortunately, CIPFA cancelled the scheduled course. This will be re-booked when the course is next run by CIPFA.
- 4.3 As members of the Advisory Panel, ARAC members also received training on information security and data protection during the year.

#### **5. Meetings and Committee Business**

- 5.1 The Chair reviews both the agenda and the supporting papers to be discussed, prior to their despatch to Committee members and attendees.
- 5.2 The Committee sets for itself an annual work programme (see Appendix B). There were four meetings of the Committee during the year. At each meeting the Committee received a number of standing agenda items.
- 5.3 This included reports relating to declarations of any fraud or losses including data losses identified. In relation to data losses, to ensure clarity in reporting the PSOW

now provides ARAC with a table listing the incident type and date and the outcome of PSOW's investigation, including referral to the Information Commissioner where appropriate. The PSOW, as usual, followed its Data Incident and Notification Process during the year, identifying and carrying out necessary further steps to correct any failings in process or IT. Due to the nature of information, and the effect on the data subject, PSOW notified the Information Commissioner of one incident during 2016/17. However, following further investigation, and based on the processes in place at the time and steps subsequently taken, the ICO accepted that this was human error and decided no further action was necessary.

- 5.4 The Committee also received reports on any appropriate matters that fell within its terms of reference. This included: the nine month accounts; pension arrangements; updates on the business continuity plan; and relevant financial and corporate governance matters issued by HM Treasury. It also reviewed the draft annual accounts and auditor's report, advising the Ombudsman appropriately prior to the signing of the accounts.
- 5.5 Another standing item is risk management and the risk register. This was a subject that received special attention during the year. A workshop on this topic was facilitated by Deloitte (which involved all Advisory Panel members) in July 2016. As a result a proposal for a new approach within the PSOW's office to risk was proposed, together with a suggested 'reduced format' report to future ARAC meetings. The work on developing the new format would continue into the next operational year 2017/18.
- 5.6 At each meeting, the Committee received for information purposes a copy of the latest Budget Monitoring report considered by the Management Team. This is intended to provide the Committee with assurance that there is a regular scrutiny of the financial position within the office.
- 5.7 The Committee provided advice to the Ombudsman to ensure that the 2016/17 Annual Governance Statement included appropriate information and complied with best practice.
- 5.8 In addition, during the year the Committee considered a draft Whistleblowing Policy, which was subsequently sent out to all staff and trade unions for consultation. That revised policy was approved and introduced in December 2016.
- 5.9 The Committee considered the draft Business Continuity – Business Impact Assessment policy during the year.

## **6. Internal and External Audit**

- 6.1 Following a tender process Deloitte was awarded the internal audit contract in February 2016 for the next three financial years. In March 2016, ARAC agreed the three year audit plan 2016/17 to 2018/19. Therefore the internal audit work for 2016/17 was the first year of the three year plan.
- 6.2 Their reports highlighted the satisfactory internal control framework within the organisation and made recommendations for improvement where necessary. Their Financial Systems Internal Audit Annual Report for 2016/17 stated the following overall assessments:

Budgetary Control	SUBSTANTIAL assurance
General Ledger	SUBSTANTIAL assurance
Fixed Assets	MODERATE assurance

With regard to the ‘moderate’ assurance for fixed assets, this was due to the fact that one asset from a sample of 10 assets selected randomly from the fixed asset register could not be physically verified. The asset was ‘24 keyboards and mouse’. The asset concerned was one of several “legacy assets” that were added to the Sage system in 2006 and have NIL book value. They were not true fixed assets since they were below the PSOW’s capitalisation level of £1,000 and were added to the fixed asset register to simply record them somewhere. That approach has been revisited and only true capital assets are now added to the fixed asset register. The legacy assets will be removed as part of the 2016/17 year-end procedures and have no impact on the balance sheet valuation. The auditors’ view, that this issue is of medium priority, is not shared by PSOW as the asset identified was never a true fixed asset in the first place.

The rolling audit programme covering the other aspects of the organisation’s work and controls also noted the satisfactory internal control framework within the organisation and made recommendations for improvement where necessary. The overall assessments were as follows:

Corporate Governance	SUBSTANTIAL assurance
Complaints Handling	SUBSTANTIAL assurance
Staff Performance Management	SUBSTANTIAL assurance

- 6.3 The internal auditors’ Annual Report for 2016/17 stated: “Based on the work we have undertaken during the year we are able to conclude that the Public Services Ombudsman for Wales (PSOW) has a basically sound system of internal control, which should provide **substantial assurance** regarding the achievement of PSOW’s objectives”. These findings provide assurance that the arrangements in place are reducing the office’s exposure to risk. The Committee noted the thoroughness of the audit work, practicality of recommendations and the open and positive response of management to the recommendations made.
- 6.4 The role of external audit, as required by the Public Services Ombudsman (Wales) Act 2005, has to be undertaken by the Auditor General for Wales and that work, with the agreement of the Ombudsman, was carried out during the year by Wales Audit Office themselves. The Committee considered the Annual Accounts for 2015/16, together with the External Audit of Financial Statements Report and Management Letter.
- 6.5 An unqualified opinion was given on the Accounts for 2015/16 on 21 July 2016.
- 6.6 In preparation for the Annual Accounts 2016/17, consideration was also given to the draft Governance Statement of the office for that year.
- 6.7 Both Internal and External Auditors have the right, if considered appropriate, to raise any matter through an open access policy to the Chair and, through that right, to bring any matter to the attention of the Committee. The Committee by reviewing the programmes of both the External and the Internal Auditors ensured that they

were co-operating effectively with each other. The quality of the audit work and that of the Committee has been evaluated during the year through consideration of the audit reports and recommendations and dialogue at meetings between Committee Members and the Auditors.

- 6.8 To ensure that appropriate matters can be raised in confidence the Chair of the Committee holds an annual meeting with representatives of the External and Internal Auditors. Such a meeting was held on 15 March 2017.

## **7. Monitoring Processes**

- 7.1 At each meeting during 2016/17 the Committee received a report on progress made on implementation of External and Internal Audit recommendations. The Committee members were satisfied that almost all recommendations made had been implemented. Where they have not been fully implemented, explanations were given and these have been considered carefully by the Committee. (Recommendations not fully implemented related principally to improvements to IT systems functionality and disaster recovery arrangements which cannot be addressed under current IT systems in a cost-effective way. Requirements reflecting the internal audit recommendations will be included in future systems specifications.)

## **8. Annual Review**

- 8.1 As part of its review of the year, as well as the individual Member's self assessment exercise, the ARAC seeks to ensure that it continues to comply with the Good Practice Principles set out in the HM Treasury Audit Committee Handbook. To assist the Committee in determining that it was complying with good practice each member was invited to complete the National Audit Office's "The Audit Committee self assessment checklist". The comments received from both exercises have been taken into account in preparing this Annual Report.

- 8.2 Some specific comments by Committee Members were that:

- the Committee had benefitted by being strengthened through the addition of a third independent member; and that ARAC members continued to work well together, with their different skill sets serving the PSOW well.
- the Committee had contributed fully and effectively in several ways, particularly so in relation to the review of risk management and risk appetite of the PSOW, together with the consequential change of approach at the PSOW office
- providing assurance in relation to the PSOW in relation to the Governance Statement was an important priority
- that the ARAC had overall continued to undertake its duties effectively and continued to comply with the standards and best practice appropriate to the Committee.
- consideration would need to be made in relation to transitional arrangements/knowledge transfer when the current ARAC Chair's term comes to an end in September 2017.

8.3 In addition to the self-assessment exercise undertaken by Committee members, and the completion of the National Audit Office checklist, internal and external audit representatives and members of PSOW staff who regularly attend ARAC meetings were asked to complete a survey and respond to questions on the performance and contribution of the Committee. Questions covered communication between the ARAC and the organisation, the effectiveness of meetings, the knowledge and experience within the Committee, openness & trust, and whether the Committee provides constructive challenge. All responses were positive or very positive about the contribution of the Committee.

## **9. Overall Assessment**

9.1 In developing this Annual Report, the Committee has been satisfied that it has received the comprehensiveness of assurances it requires to meet its needs and that the information it has received during the year has been reliable and sufficient to carry out its responsibilities. It has also been satisfied that those assurances have demonstrated satisfactory overall internal control environment, financial reporting, management of risk and of the quality of both the Internal and External Audit work undertaken.

9.2 Therefore, the Committee has been able to provide assurances to effectively support the Public Services Ombudsman for Wales to comply with his Accounting Officer's responsibilities in particular in assisting in the preparation of the Financial Statements (which incorporates the Governance Statement).

9.3 In undertaking a review of its own performance, the Audit & Risk Assurance Committee considers that it has operated effectively and in line with good practice.

## **10. Acknowledgements**

10.1 The Chairman is grateful to John Williams, Sharon Warnes and Jonathan Morgan as members of the Committee for their work, contribution, assistance and support. He is similarly grateful for the contribution of the Ombudsman, Nick Bennett; the Committee secretariat; and members of the PSOW's Management Team. He is also grateful to Ann-Marie Harkin from the Wales Audit Office, and Ian Howse and his team at Deloitte. Their support and advice has been very supportive during the year.

Appendix A - Terms of Reference of the Audit & Risk Assurance Committee Appendix B - Work Programme 2016/17
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## Appendix A

### **Audit & Risk Assurance Committee - Terms of Reference**

The Ombudsman has established an Advisory Panel whose main role is to provide support and advice in providing leadership and good governance of the office. The Audit & Risk Assurance Committee is a sub-committee of the Advisory Panel, with a specific role to support the Ombudsman in relation to responsibilities 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.

#### **Membership**

The members of the Audit & Risk Assurance Committee are:

- an independent external Chair
- three independent external members

with the Policy and Communications Manager acting as Secretary to the Committee.

#### **Reporting**

- Each Audit & Risk Assurance Committee shall be recorded in minutes that will be approved at the next meeting.
- The Audit & Risk Assurance Committee will provide the Accounting Officer with an Annual Report, timed to support finalisation of the accounts and the Annual Governance Statement, summarising its conclusions from the work it has done during the year.

#### **Responsibilities**

The Audit & Risk Assurance Committee will advise the Accounting Officer on:

- the strategic processes for risk, control and governance and the Annual Governance Statement;
- the draft Strategic and Business plans from a compliance, economy, efficiency and effectiveness basis in recognition of the requirement with the annual audit to account for the use of funds;

- the accounting policies, the 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;
- the planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity, including external audit's management letter;
- assurances relating to the corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for Internal Audit services or for purchase of non-audit services from contractors who provide audit services;
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations;
- the Audit & Risk Assurance Committee will also periodically review its own effectiveness and submit a report to the Advisory Panel.

## **Rights**

The Audit & Risk Assurance Committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience;
- procure specialist ad-hoc advice subject to being within budget.

## **Access**

- The representative of Internal Audit and the representative of External Audit will have free and confidential access to the Chair of the Audit & Risk Assurance Committee.

## **Meetings**

- The Audit & Risk Assurance Committee will meet at least four times a year. The Chair of the Audit & Risk Assurance Committee or the Ombudsman may convene additional meetings, as they deem necessary.
- A minimum of two independent members of the Audit & Risk Assurance Committee will be present for the meeting to be deemed quorate.
- In the event of the Chair of the Audit & Risk Assurance Committee being unable to attend a meeting, one of the independent members will take the chair.
- Audit & Risk Assurance Committee meetings will normally be attended by the Ombudsman, Chief Operating Officer & Director of Investigations, Corporate Services Manager, the Financial Advisor, the representatives from Internal Audit, and representatives of External Audit.
- The Audit & Risk Assurance Committee may ask any other officials of the office to attend to assist it with its discussions on any particular matter.
- The Audit & Risk Assurance Committee may invite other persons or bodies to attend meetings to provide professional advice or information on any matters that the Committee deems relevant to the proper discharge of its functions.



- The Audit & Risk Assurance 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.

## Information Requirements

For each meeting the Audit & Risk Assurance Committee will be provided with:

- a report summarising any significant changes to the organisation’s Risk Register, together with a list of High and Medium risk items;
- a progress report from Internal Audit representative summarising:
  - work performed (and a comparison with work planned);
  - key issues emerging from Internal Audit work;
  - management response to audit recommendations;
  - changes to the Periodic Plan;
  - any resourcing issues affecting the delivery of Internal Audit objectives;
- a progress report from the External Audit representative summarising work
  - done and emerging findings;
- a report or reports on any significant breaches of the organisation’s control framework, frauds, losses, disposal of assets, write-offs, procurement outside of the normal arrangements and any other matters that the Committee ask to be reported to it at each of its meetings.

As and when appropriate the Committee will also be provided with:

- proposals for the Terms of Reference of Internal Audit;
- the Internal Audit Strategy;
- a copy of all internal audit reports issued;
- Internal Audit’s Annual Opinion and Report;
- quality assurance reports on the Internal and External Audit functions;
- the draft accounts of the organisation;
- the draft Annual Governance Statement;
- a report on any changes to accounting policies;
- External Audit’s ISA 260 report and associated management letter;
- a (verbal) report on co-operation between Internal and External Audit;
- proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services;
- any changes to the risk management policy and strategy;
- any changes to anti-fraud policies, whistle-blowing processes, and arrangements for special investigations;
- proposals for any significant changes to any elements of the control framework;

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[As agreed by the Advisory Panel on 7 December 2016.]

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## Appendix B

### Audit & Risk Assurance Committee (ARAC) Work Programme 2016/17

Date	Item
[May 2016]	Outside of Committee cycle, ARAC Members to be provided with Draft Accounts (prior to external audit).
13 July 2016	Final Draft of Accounts 2015/16 (including ARAC Annual Report) Governance Statement (Including Internal Audit End of Year Final Report) External Audit Report Budget Monitoring Risk Register Internal Audit Report (if any) Internal/External Audit recommendations – progress report Outstanding Issues arising from previous ARAC meetings Issues that require notification to the ARAC ARAC Members’ Training Requirements
15 September 2016	External Audit Management Letter Ombudsman’s proposed response to External Audit Management Letter Budget Monitoring Risk Register Internal Audit report (if any) Internal Audit – report on progress against audit plan Internal/External Audit recommendations – progress report Outstanding Issues arising from previous ARAC meetings Issues that require notification to the ARAC
7 December 2016	ARAC Terms of Reference – Review Financial Policies Review Likely Outturn 2016/17 Budget Monitoring Risk Register Internal/External Audit recommendations – progress report Internal Audit report (if any) Internal Audit – report on progress against audit plan Issues that require notification to the ARAC Outstanding Issues arising from previous ARAC
15 March 2017	Draft Governance Statement (& Draft Internal Audit End of Year Report) Review of ARAC’s performance 2016/17 & Draft ARAC Annual Report Annual Accounts - Nine Month Position Statement External Audit – Summary of Audit Strategy 2016/17 Internal Audit Annual Plan Budget Monitoring Risk Register Internal Audit Report (if any) Internal/External Recommendations – progress report Outstanding Issues arising from previous ARAC meetings Internal Audit end of year report/annual report Issues that require notification to the ARAC

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