

## **Audit and Risk Assurance Committee's Annual Report 2017/18**

### **1. Background**

- 1.1 This paper reviews the performance of the Audit and Risk Assurance Committee (ARAC) for 2017/18, extracts of which are to be included within the Public Services Ombudsman for Wales's Annual Report & Accounts for the year ended 2017/18.
- 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 2017. The revised and current Terms of Reference are attached (Appendix A).

### **3. Membership**

- 3.1 **Independence:** Due to a number of Independent Members' terms of office concluding in 2017/18 a recruitment exercise took place in June 2017. Three new Independent Members were recruited and attended their first meetings in December 2017. The new Members are Dr Tom Frawley CBE, former Assembly Ombudsman and Northern Ireland Commissioner for Complaints; Jim Martin, former Scottish Public Services Ombudsman; and Beverley Peatling, Project Manager/Business Analyst for the Metropolitan Police Service (Counter Terrorism Unit) (Beverley only attended the December meeting having resigned in early January due to a change in circumstances which led to a conflict of interest). William Richardson's term of office concluded in September 2017 and Jonathan Morgan was appointed Chair with effect from the December 2017 meeting. As mentioned previously, Mr Morgan's experience as an Assembly Member and as former chair of the National Assembly's Public Accounts Committee, has provided added value to the ARAC and to the role of Chair. Sharon Warnes stepped down from her role as Independent Member in September 2017.

- 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>
Jonathan Morgan (Chair December – March)	4
John Williams	4
Tom Frawley (from December)	2
Jim Martin (from December)	2
William Richardson (Chair July - September)	2
Sharon Warnes (July – September)	2
Beverley Peatling (December only)	1

- 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:** Each member of the Committee completes an annual declaration of interests. The information provided is used to compile the Register of Interests, which will be published annually on the PSOW website from 1 April each year. 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. An induction day took place in December 2017 and all new members attended. In October 2017 the Financial Accountant, David Meaden attended a cyber security workshop for chairs of Audit and Risk Assurance Committees facilitated by Wales Audit Office on behalf of the Chair. This was useful for networking and sharing best practice and information.
- 4.2 In May 2017, the Ombudsman, Chief Operating Officer, Financial Accountant and Chair too place in a Cyber Security, GDPR and Risk Assurance Workshop run by Deloitte LLP.

## 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 Standing agenda items 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 the 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.
- 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. A new approach to the risk register was proposed in 2016/17 and following consideration by both the PSOW's Management Team and the Committee, the revised format was approved and adopted in March 2017. In addition a revised Risk Policy was reviewed and adopted by Management Team in January 2018.
- 5.6 At each meeting, the Committee received for information purposes a copy of the latest Financial 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 2017/18 Annual Governance Statement included appropriate information and complied with best practice.

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

- 6.1 The internal audit work for 2017/18 was the second year of the three year plan.
- 6.2 Deloitte LLP's rolling audit programme highlighted the satisfactory internal control framework within the organisation and made recommendations for improvement where necessary. The following audits were carried out and overall assessments made as follows:

IT General Controls	MODERATE assurance
Open Source Data	SUBSTANTIAL assurance
Professional Advisors	SUBSTANTIAL assurance
Financial Systems:	
Budgetary Control	SUBSTANTIAL assurance
Purchasing and Payments	MODERATE assurance
Banking & Cash Management	SUBSTANTIAL assurance
Risk Management & Corporate Governance	SUBSTANTIAL assurance
Follow Up Report	

In most audits the level of assurance was considered "Substantial". However, there were two areas where the assurance level was "Moderate". One related to IT General Controls and the formal recording and documentation of the IT penetration tests that had been completed. This has been addressed and a full report on the testing was provided and shared with IT support providers. The other area of "Moderate" assurance was Purchasing and Payments, where one purchase order for translation services was found not to have

been countersigned. The audit also noted that the fact that purchase orders are not required for rent, business rates, utility bills etc. was not covered in documented procedures. This will be addressed at the next review of documented processes in Quarter 3 of 2018/19 (i.e. by December 2018).

- 6.3 The internal auditors' Annual Report for 2017/18 stated: "Based on the work we have undertaken during the year we are able to conclude that the Ombudsman has a basically sound system of internal control, which should provide **substantial assurance** regarding the achievement of the Ombudsman'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. In 2016/17 the PSOW Annual Accounts and PSOW Annual Report were combined to become the PSOW Annual Report & Accounts. The Committee considered the accounts element of the report together with the Audit of Financial Statements Report and Management Letter.
- 6.5 An unqualified opinion was given on the Accounts for 2016/17 on 12 July 2017.
- 6.6 The Committee considered the draft Governance Statement of the office for 2017/18.
- 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 28 March 2018.

## **7. Monitoring Processes**

- 7.1 At each meeting during 2017/18 the Committee received a report on progress made on implementation of External and Internal Audit recommendations. The Committee members were satisfied that all recommendations made had been implemented or would be completed within agreed timescales.

## **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's Audit and Risk Assurance 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 "Audit and Risk Assurance

Committee Effectiveness Checklist". The comments received from both exercises have been taken into account in preparing this Annual Report.

8.2 All Committee Members commented positively on the following areas:

- Performance against Objectives
- Achievements & Personal Effectiveness
- Difficulties
- Working Relationships
- Assessment of Committee Performance

8.3 In addition to the self-assessment exercise undertaken by Committee members, and the completion of the National Audit Office's 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. In undertaking its role the Committee has been assured by the engagement it has had with those working in the office of the Ombudsman who have been open to scrutiny and challenge in the discharge of their duties

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 responsibilities. In doing so the Committee is confident that its role has been undertaken robustly and professionally in providing that assurance, drawing on the expertise and experience of Committee members

9.3 In undertaking its annual review of its own performance, the Chair of the Audit & Risk Assurance Committee has challenged individual members to self evaluate their own performance and contribution and considers that it has operated effectively and in line with good practice.

## **10. Acknowledgements**

10.1 The Chairman is grateful to his predecessor, William Richardson and John Williams, Sharon Warnes, Tom Frawley, Jim Martin and Beverley Peatling as members of the Committee for their work, contribution, assistance and support. Likewise, he would like to thank the Ombudsman, Nick Bennett, the Committee secretariat, and members of the PSOW's Management Team for their contributions throughout the year. Finally, the

Chairman is grateful to Ann-Marie Harkin and Geraint Norman from the Wales Audit Office, and Ian Howse and his team at Deloitte for their continued support and sage advice during the year.

Appendix A - Terms of Reference of the Audit & Risk Assurance Committee Appendix B - Work Programme 2017/18
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## **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
- at least three independent external members

with the Chief Operating Officer/Director of Investigations 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, Director of Policy, Legal & Governance, Corporate Services Manager, the Financial Accountant, 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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Revised and approved by Management Team on 20 November 2017 and  
 Advisory Panel & Audit & Risk Assurance Committee on 6 December 2017  
 Next Review: December 2019.

**Public Services Ombudsman for Wales  
Audit & Risk Assurance Committee (ARAC) Work Programme 2018/19**

**May 2018**

Draft Annual Accounts 2017/18 to be circulated to ARAC members

**June 2018**

Annual Accounts 2017/18 (including Governance Statement)  
Audit of Financial Statements Report and Management Letter  
Financial Monitoring Report  
Risk Register  
Internal Audit Reports (if any)  
Internal/External Audit Recommendations – Progress Report  
Matters that require reporting to ARAC  
ITC Projects

**September 2018**

Financial Monitoring Report  
Risk Register  
Internal Audit Reports (if any)  
Internal Audit – Report on progress against Audit Plan  
Internal/External Audit Recommendations – Progress Report  
Matters that require reporting to ARAC  
ITC Projects

**December 2018**

Financial Monitoring Report  
Risk Register  
Internal Audit Reports (if any)  
Internal Audit – Report on progress against Audit Plan  
Internal/External Audit Recommendations – Progress Report  
Matters that require reporting to ARAC  
ITC Projects

**March 2019**

Nine Month Accounts  
Draft Governance Statement  
External Audit – Summary of Audit Strategy 2019/20  
ARAC Annual Report  
Financial Monitoring Report  
Risk Register  
Internal Audit – Annual Report 2018/19  
Internal Audit Annual Plan 2019/20  
Internal Audit Reports (if any)  
Internal/External Audit Recommendations – Progress Report  
Matters that require reporting to ARAC  
ITC Projects