

Audit & Risk Assurance Committee's Annual Review 2019/2020

1. Background

- 1.1 This paper reviews the performance of the Audit & Risk Assurance Committee (ARAC) for 2019/2020. Key points from this Review are included within the Public Services Ombudsman for Wales' Annual Report & Accounts for the 2019/2020 year.
- 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 and has received and considered 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 Terms of Reference of ARAC were reviewed and agreed by the Committee in December 2019 and are attached at Appendix A.

3. Membership

- 3.1 Membership comprises up to six independent external members. Membership during 2019/2020 was unchanged from that in the previous year. Members of the Committee are Mr Jim Martin, former Scottish Public Services Ombudsman, Dr Tom Frawley CBE, former Assembly Ombudsman and Northern Ireland Commissioner for Complaints, Mr Jonathan Morgan, former Assembly Member and previously Chair of the National Assembly's Public Accounts Committee, Mrs Anne Jones, former Assistant Information Commissioner, Mr Trevor Coxon, former Monitoring Officer of Wrexham County Borough Council and Mr Ian Williams, former Group Chief Executive of Hendre Limited. Mr Morgan's initial term of office was due to conclude in December 2019. However, for continuity, particularly in the light of the new PSOW Act 2019, the Ombudsman invited Mr Morgan to continue in his role as Independent Member and Chair of the ARAC for a further 12-month period.
- 3.2 **ARAC Member Attendance:** As a result of the Coronavirus pandemic, the March 2020 meeting of the Committee did not take place in the normal way. Papers were circulated as normal and all members commented and asked questions about the papers in writing. A small meeting was then held using video conferencing. This involved the Committee Chair, internal audit, external audit the Ombudsman and a reduced number of staff. Other than for the Chair, full attendance for the year was therefore 3 meetings, and all members contributed to the fourth meeting. Attendance at meetings by Committee Members during the year was as follows:

Committee Member	No. of attendances
Jonathan Morgan (Chair)	4
Tom Frawley	2
Jim Martin	3
Trevor Coxon	3
Anne Jones	3
Ian Williams	3

3.3 **Other Attendance:** The Ombudsman attends ARAC Meetings and the Chief Operating Officer acts as Secretary to the Committee. The meetings were also regularly attended by external auditors (the Wales Audit Office), internal auditors (Deloitte) and appropriate 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 is published annually on the PSOW website. In addition, the first agenda item for any ARAC meeting allows for the declaration of any interest that is 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, and training suggestions will be taken into account in planning for 2020/21. Training on Information and Cyber Security is to be arranged for ARAC members in 2020/21.

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 and follows an annual work programme. This workplan, together added comments on the achievement of the workplan, can be found at Appendix B. There were four meetings of the Committee during the year. At each meeting the Committee considered a number of standing agenda items.

5.3 Standing agenda items included reports relating to declarations of any fraud or losses, including any identified data losses. In relation to data losses, to ensure clarity in reporting, the PSOW provides the Committee 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 followed its Data Incident and Notification Process during the year, identifying and carrying out necessary further steps to correct any failings in processes or systems.

5.4 Another standing item is risk management. At each meeting the Committee considered a report on the greatest identified risks. The Committee explored and challenged the reported risks to satisfy itself that all key risks have been identified. Risk management and risk mitigation measures were also considered.

- 5.5 At each meeting, the Committee considered the latest Management Team Financial Monitoring report. This is intended to provide the Committee with assurance that there is a regular scrutiny of the financial position within the office, and that financial risks and issues have been taken into account in financial management.
- 5.6 The Committee also received reports on a number of other appropriate matters within its terms of reference. These included: the nine-month accounts; a review of the Whistleblowing Policy; updates on major IT developments; and relevant financial and corporate governance matters. The Committee considered the PSOW review of the Cabinet Office Counter-Fraud Framework to satisfy itself that appropriate arrangements are in place. It also reviewed the draft annual accounts and auditor's report, advising the Ombudsman prior to the signing of the accounts.
- 5.7 The Committee provided advice to the Ombudsman to ensure that the 2019/2020 Annual Governance Statement included appropriate information and complied with best practice.
- 5.8 The proposed 2020/2021 Work Programme for the ARAC is attached for information at Appendix C, and key future considerations are shown in section 6 below.

6. Future considerations

- 6.1 In looking forward to the 2020/21 year the Committee will undertake its work in accordance with the Work Programme in Appendix C, and mindful of the observations made as part of the annual review of the effectiveness of the Committee. These included:
- working with the Ombudsman and his staff to improve communication with the organisation and its staff
 - planning and managing the Committee agenda to ensure there is sufficient time to test and challenge the organisation and auditors
 - rigorously challenging assurances provided to the Committee.
- 6.2 The Committee will follow up previous matters considered and identified as risks. These include:
- IT support arrangements
 - IT backup and testing of restoration of data and systems from the Cloud
 - Impact of Coronavirus and business recovery, including approach to working with public bodies
 - Accounting for the costs and benefits of new powers
 - Reviewing and challenging cyber security preparedness.
- 6.5 The Committee will also discuss the mix of skills and experience amongst members of the Committee, in the context of future changes in membership of the Committee, as terms of office draw to a close.

7. Internal and External Audit

- 7.1 The internal audit work for 2019/2020 was the final year of the three-year internal audit plan. Deloitte will be continuing to provide internal audit services in 2020/21 and a new internal audit plan is being developed.

7.2 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:

Professional Advice	SUBSTANTIAL assurance
Financial Systems:	
Fixed Assets	SUBSTANTIAL assurance
General Ledger	SUBSTANTIAL assurance
Purchasing & Payments	SUBSTANTIAL assurance
Corporate Governance & Risk Management	SUBSTANTIAL assurance
IT Security	MODERATE assurance

7.3 The Committee was pleased to note that in most cases the level of assurance was considered '**Substantial**', the highest assurance level. For IT Security, where the assurance rating was '**Moderate**', no recommendations were made as the areas for concern had been recognised by the Ombudsman and actions were in hand to address them at the time of the audit.

7.4 In addition, the internal auditors undertook an advisory audit of new contract management arrangements recently introduced. Since this was an advisory audit, no assurance rating was given, but a number of recommendations were made. The Committee will be monitoring progress in implementing these recommendations.

7.5 The internal auditors' Annual Report for 2019/2020 stated: 'Based on the conclusions of our work, we can provide the Ombudsman with substantial assurance in relation to the organisation's arrangements for risk management, governance and internal control.' These findings provide assurance that the arrangements in place are reducing and managing 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.

7.6 The role of external audit, as required by the Public Services Ombudsman (Wales) Acts of 2005 and 2019, must be undertaken on behalf of the Auditor General for Wales. That work was carried out during the year by Wales Audit Office. The Committee considered the accounts element of the PSOW Annual Report & Accounts, together with the Audit of Financial Statements Report and Management Letter. An unqualified opinion was given on the Accounts for **2018/2019** on 3 July **2019**.

7.7 The Committee considered and agreed the draft Governance Statement of the office for 2019/2020.

7.8 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 through dialogue at meetings between Committee Members and the Auditors.

- 7.9 To ensure that appropriate matters can be raised in confidence, the Chair of the Committee generally holds an annual meeting with representatives of the External and Internal Auditors. Arrangements this year were disrupted by Coronavirus restrictions. On 31 March 2020 the Chair of the Committee had a virtual meeting with the internal auditors. The external audit representative was unable to join this as planned but there was a subsequent discussion between the Chair of the Committee and the external audit lead, by telephone, on 21 April.
- 7.10 Additionally, following feedback from Committee members in the 2018/19 review, a short meeting between the External and Internal Auditors and the Independent Members of the ARAC is held prior to each ARAC meeting.

8. Monitoring Processes

- 8.1 At each meeting during 2019/2020 the Committee received a report on progress made on implementation of External and Internal Audit recommendations. The Committee was satisfied that all recommendations made had been implemented or would be completed within agreed timescales.

9. Annual Review

- 9.1 This report provides an opportunity to review the operation of the Committee 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. There are four key assessment exercises that feed into this review. These are:
- a self-assessment exercise undertaken by all Committee members;
 - the completion of the National Audit Office's 'Audit and Risk Assurance Committee Effectiveness Checklist' by each Committee member;
 - an assessment, by internal and external audit representatives and members of PSOW staff who regularly attend the Committee, of the performance and contribution of the Committee; and
 - one-to-one reviews and discussion involving Committee members and the Committee Chair.

Comments from these exercises have been taken into account in undertaking this Annual Review.

- 9.2 In the self-assessment exercise all Committee Members commented positively on the following areas:
- Performance against Objectives
 - Achievements & Personal Effectiveness
 - Difficulties
 - Working Relationships
 - Assessment of Committee Performance

- 9.3 Members also commented on the value of the range and extent of experience reflected in the Committee and on the openness and frankness of the meetings. Several members commented on the quality of and detail in reports to the Committee and on the open and receptive approach of the Ombudsman and his staff in receiving constructive suggestions and challenges.
- 9.4 Committee members considered that the attendance at Committee meetings of relevant staff from across the office was useful in gaining greater understanding and assurance, and that the opportunity to meet staff informally on meeting days was valuable and gave a better insight into the operation of the organisation and into the work undertaken.
- 9.5 All members of the Committee completed the National Audit Office's checklist questionnaire. Responses have been summarised and reported to the Committee. In most cases members have been able to respond affirmatively to the questions asked. A small number of questions and comments were also raised and highlighted in a report to the Committee, together with details of any actions necessary to address them.
- 9.6 In the third of the assessment exercises mentioned above, 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.
- 9.7 Finally, the one-to-one annual discussions involving the Chair and individual Committee members provided positive feedback on the activities of the Committee and the conduct of meetings. It was also suggested that each agenda includes an item to propose matters for consideration at future meetings. These suggestions will both be taken forward.

10. Overall Assessment

- 10.1 In developing this Report, the Committee has been satisfied that it has received the comprehensive 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 the Ombudsman and his staff, who have been open to scrutiny and challenge in the discharge of their duties.
- 10.2 The Committee also feels that it has been able to undertake its role in an effective manner because of the availability of information from those working within the office of the Ombudsman and from the work undertaken by both the internal and external auditors. The nature and presentation of that information has allowed for a supportive and challenging exchange of views and advice which has allowed the Committee to support the Ombudsman.

- 10.3 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 wide experience of Committee members.
- 10.4 In undertaking its annual review of its own performance, the Chair of the Audit & Risk Assurance Committee has challenged individual members to evaluate their own performance and contribution. He considers that the Committee has operated effectively and in line with good practice.

11. Acknowledgements

- 11.1 The Chair is grateful to the Independent Members of the Committee, Tom Frawley, Jim Martin, Anne Jones, Trevor Coxon and Ian Williams for their work, contributions, 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 Chair is grateful to Ann-Marie Harkin and Jeremy Saunders 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 2019/20, updated with actuals Appendix C - Work Programme 2020/2021

Audit & Risk Assurance Committee - Terms of Reference

The Ombudsman has established an Audit & Risk Assurance Committee whose role is 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
- up to five other independent external members (who offer specific skills and experience sought by the Ombudsman and one of whom may be from another ombudsman office).

The Chief Operating Officer & Director of Improvement will act as Secretary to the Committee; other Management Team members, as determined by the Ombudsman, may be in attendance at the Committee's meetings.

The term of office for Independent members will be three years. The Ombudsman has the option to extend a term for one further year.

The meetings will be Chaired by one of the independent external members. The Ombudsman will appoint an independent member of the Panel to the position of Chair on the recommendation of the Audit & Risk Assurance Committee. Should the Ombudsman decide not to follow the recommendation of the Audit & Risk Assurance Committee the Ombudsman's decision will be recorded in the minutes of the Audit & Risk Assurance Committee's meeting.

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.

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 three 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 Improvement; Chief Legal Adviser & Director of Investigations; IT Manager; the Financial Accountant; 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 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.

The External Audit representative will report as appropriate on any work done and emerging findings.

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

- the Internal Audit Strategy;
- proposals for the Terms of Reference of Internal Audit;
- a copy of all internal audit reports issued;
- Internal Audit’s Annual Opinion and Report;
- any 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;
- an oral 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.

Reviewed and approved by Management Team on 12 November 2019 and agreed by Audit & Risk Assurance Committee on 4 December 2019.
Next Review: December 2020.

Audit & Risk Assurance Committee (ARAC) Work Programme 2019/20
Planned / Actual

May 2019	Planned / Actual
Draft Annual Accounts 2018/19 to be circulated to ARAC members – Sent 30 May 2019	
July 2019	
Annual Accounts 2018/19 (including Governance Statement) – ARAC 2 July 2019 – Item 6	
Audit of Financial Statements Report and Management Letter - ARAC 2 July 2019 – Item 7	
Financial Monitoring Report - ARAC 2 July 2019 – Item 10	
Risk Register - ARAC 2 July 2019 – Item 14	
Internal Audit Reports (if any) – Progress report ARAC 2 July 2019 – Item 12	
Internal/External Audit Recommendations – Progress Report - ARAC 2 July 2019 – Item 13	
Matters that require reporting to ARAC - ARAC 2 July 2019 – Item 15	
ITC Projects - ARAC 2 July 2019 – Item 17	
Annual Whistleblowing Report - ARAC 2 July 2019 – Item 16	
September 2019	
Financial Monitoring Report – ARAC 24 Sept. 2019 – Item 7	
Risk Register - ARAC 24 Sept. 2019 – Item 8	
Internal Audit Reports (if any) – Professional Advice - ARAC 24 Sept. 2019 – Item 6	
Internal Audit – Report on progress against Audit Plan - ARAC 24 Sept. 2019 – Item 6	
Internal/External Audit Recommendations – Progress Report - ARAC 24 Sept. 2019 – Item 9	
Review Counter Fraud framework and anti-corruption arrangements – ARAC 24 Sept. 2019 – Item 10	
Matters that require reporting to ARAC - ARAC 24 Sept. 2019 – Item 11	
ITC Projects - ARAC 24 Sept. 2019 – Item 12	
December 2019	
Financial Monitoring Report - ARAC 4 Dec. 2019 – Item 7	
Risk Register - ARAC 4 Dec. 2019 – Item 6	
Internal Audit Reports (if any) – Contract Management - ARAC 4 Dec. 2019 – Item 10	
Internal Audit – Report on progress against Audit Plan - ARAC 4 Dec. 2019 – Item 11	
Internal/External Audit Recommendations – Progress Report - ARAC 4 Dec. 2019 – Item 12	
Review Terms of Reference and Work Programme - ARAC 4 Dec. 2019 – Item 17	
Matters that require reporting to ARAC - ARAC 4 Dec. 2019 – Item 13	
ITC Projects - ARAC 4 Dec. 2019 – Item 15	
March 2020	
Nine Month Accounts	
Draft Governance Statement	
External Audit – Summary of Audit Strategy 2020/21	
ARAC Annual Report	
Financial Monitoring Report	
Risk Register	
Internal Audit – Annual Report 2019/20	
Internal Audit Annual Plan 2020/21	
Internal Audit Reports (if any) – Financial Systems, Corporate Governance, Risk Management & Follow up, IT Security	
Internal/External Audit Recommendations – Progress Report	
Matters that require reporting to ARAC	
ITC Projects	

**Public Services Ombudsman for Wales
Audit & Risk Assurance Committee (ARAC) Work Programme 2020/21**

May 2020

Draft Annual Accounts 2019/20 to be circulated to ARAC members

June 2020

Annual Accounts 2019/20 (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
Annual Whistleblowing Report

September 2020

Financial Monitoring Report
Risk Register
Internal Audit Reports (if any)
Internal Audit – Report on progress against Audit Plan
Internal/External Audit Recommendations – Progress Report
Review Counter Fraud framework and anti-corruption arrangements
Matters that require reporting to ARAC
ITC Projects

December 2020

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

March 2021

Nine Month Accounts
Draft Governance Statement
External Audit – Summary of Audit Strategy 2021/22
ARAC Annual Report
Financial Monitoring Report
Risk Register
Internal Audit – Annual Report 2020/21
Internal Audit Annual Plan 2021/22
Internal Audit Reports (if any)
Internal/External Audit Recommendations – Progress Report
Matters that require reporting to ARAC
ITC Projects