

Audit & Risk Assurance Committee's Annual Review 2020/21

1. Background

- 1.1 This paper reviews the performance of the Audit & Risk Assurance Committee (ARAC) for 2020/21. Key points from this Review are included within the Public Services Ombudsman for Wales' Annual Report & Accounts for the 2020/21 year.
- 1.2 The primary role of the Committee is to provide independent support to the Public Services Ombudsman for Wales on assurance matters and 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 September 2020 and are attached at Appendix A.

3. Membership

- 3.1 Membership comprises a minimum of four and a maximum of eight independent external members. Following a recruitment exercise undertaken in June 2020 to take account of some members' terms of office coming to an end in 2021, two additional members were appointed to the ARAC from September 2020. The membership of the Committee during 2020/21 was:

- Mr Trevor Coxon, former Monitoring Officer of Wrexham County Borough Council
- Dr Tom Frawley CBE, former Assembly Ombudsman and Northern Ireland Commissioner for Complaints
- Mrs Anne Jones, former Assistant Information Commissioner
- Mr Jim Martin, former Scottish Public Services Ombudsman
- Mr John McSherry (from September 2020), formerly Head of Household Claims at Admiral Insurance
- Mr Jonathan Morgan (until July 2020), former Assembly Member and previously Chair of the National Assembly's Public Accounts Committee
- Mr Mike Usher (from September 2020), formerly Strategic Lead and Director of Investigative Studies at Audit Wales
- Mr Ian Williams, former Group Chief Executive of Hendre Limited.

Mr Morgan stepped down as Independent Member and Chair of the ARAC after its July 2020 meeting, following his appointment to a role in a body in the Ombudsman's jurisdiction. On the recommendation of the Independent Members, the Ombudsman appointed Mr Williams to take up the position of Chair with effect from September 2020.

3.2 **ARAC Member Attendance:** All ARAC meetings in 2020/21 were held virtually owing to the ongoing Coronavirus pandemic. Following a review of meeting dates in August 2020 it was agreed that ARAC meetings be rescheduled to provide more timely reports to ARAC and avoid public holiday/year-end clashes. This meant that there was no meeting in March 2021, with a meeting in April 2021 instead. Full attendance for the year was therefore, for this year, 3 meetings. All members attended all meetings of the Committee during their memberships. Attendance was as follows:

Committee Member	Maximum number of attendances possible	Actual number of attendances	% attended
Jonathan Morgan (July meeting only)	1	1	100
Tom Frawley	3	3	100
Jim Martin	3	3	100
Trevor Coxon	3	3	100
Anne Jones	3	3	100
Ian Williams (Chair from September)	3	3	100
Mike Usher (Member from September)	2	2	100
John McSherry (Member from September)	2	2	100

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 (Audit Wales), internal auditors (Deloitte LLP), appropriate members of the PSOW's Management Team and, as appropriate, other PSOW staff.

3.4 **Conflicts of interest:** Each member of the Committee completes an annual declaration 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 appointments of Committee members 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 these assessments feed into the development of training plans for the year. During 2020 Members undertook training on Cyber Security and Unconscious Bias. A Risk Workshop is to be held for ARAC members in June 2021, with Governance and Accountability training planned for October 2021.

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 with added comments on the achievement of the workplan, can be found at Appendix B. There were three 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. No referrals to the Information Commissioner were required during the year.
- 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 Financial Monitoring report presented to Management Team. 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 2020/21 Annual Governance Statement included appropriate information and complied with best practice.
- 5.8 The proposed 2021/22 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 2021/22 year the Committee will undertake its work in accordance with the Work Programme in Appendix C, mindful of the observations made as part of the annual review of the effectiveness of the Committee. These included:
- working to ensure that there is sufficient focus on cyber security and IT-related risks; and
 - planning and managing the Committee agenda to ensure that there is no duplication with the work of the Advisory Panel and that any overlap is minimised.

- 6.2 During 2021/22, a workshop involving independent members and internal audit will be held to review the organisation’s approach to risk identification, management and mitigation. From this workshop, changes and improvements will be proposed, for formal consideration by the Ombudsman and the Committee, where appropriate.
- 6.3 The Committee will also follow up previous matters considered and identified as specific risks or concerns. These include:
- Cyber security and IT related risks
 - Accounting for the costs and benefits of new powers
 - Anti-fraud and corruption arrangements.

7. Internal and External Audit

- 7.1 Deloitte LLP continued to provide internal audit services in 2020/21. The internal audit work undertaken in the year completed the work included in the multi-year internal audit plan.
- 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 were made as follows:

Staff Wellbeing	SUBSTANTIAL assurance
Financial Systems:	
Banking & Cash Management	SUBSTANTIAL assurance
Budgetary Control	SUBSTANTIAL assurance
Payroll	SUBSTANTIAL assurance
Corporate Governance & Risk Management	SUBSTANTIAL assurance
Records Management	MODERATE assurance
New Powers	Advisory Report

- 7.3 The Committee was pleased to note that in most cases the level of assurance given was ‘**Substantial**’, the highest assurance level. For Records Management, where the assurance rating was ‘**Moderate**’, a number of recommendations were made. The Committee was reassured to note that the recommendations made generally confirmed work already underway or planned. All recommendations will be followed up by the new internal auditors in 2021/22.
- 7.4 In addition, the internal auditors undertook an advisory audit of the Ombudsman’s New Powers following the introduction of the PSOW Act 2019. 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 2020/21 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 2020/21 was the last year of the current contract with Deloitte LLP. For 2021/22 onwards, following a joint tender exercise for internal audit services with the Older People's Commissioner for Wales, the Welsh Language Commissioner, the Children's Commissioner for Wales and the Future Generations Commissioner, TIAA were appointed to provide internal audit services for a three year term. A new plan for the period has been prepared by TIAA and will be followed from April 2021.
- 7.7 The role of external audit, as required by the Public Services Ombudsman (Wales) Act 2019, must be undertaken on behalf of the Auditor General for Wales. That work was carried out during the year by Audit Wales. The Committee considered the accounts element of the PSOW Annual Report & Accounts for 2019/20, together with the Audit of Financial Statements Report and Management Letter. An unqualified opinion was given on the Accounts for 2019/20 on 1 July 2020.
- 7.8 The Committee considered and agreed the draft Governance Statement of the office for 2020/21.
- 7.9 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.
- 7.10 To ensure that appropriate matters can be raised in confidence, a short meeting between the External and Internal Auditors and all Independent Members of the ARAC is held prior to each ARAC meeting. In addition, the Chair of the Committee holds an annual meeting with representatives of the External and Internal Auditors. This meeting was held on 30 March 2021.

8. Monitoring Processes

- 8.1 At each meeting during 2020/21 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 a tailored version 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
- 9.2 Responses showed that the members considered that the Committee benefited from a good range of experience across its membership, and that meetings were characterised by openness and frankness. Members also commented that Ombudsman and his colleagues engaged with and responded positively, rather than defensively, to scrutiny and challenge, and that the standard of information and reports provided to the Committee was good. Some commented that, at times, there was too much detail provided.
- 9.3 Committee members noted that meetings had continued largely unhindered by being conducted online, but that they looked forward to face-to-face engagement with other committee members and staff of the Ombudsman's office when this was possible.
- 9.4 All members of the Committee completed the tailored 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. These include ensuring that there is sufficient focus on cyber security and access to appropriate advice on this topic.
- 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, how the meetings have been chaired, the knowledge and experience within the Committee, openness & trust, and whether the Committee provides constructive challenge. All 14 responses were positive or very positive about the operation and contribution of the Committee across all these areas.
- 9.7 Finally, the one-to-one annual discussions involving the Chair and individual Committee members provided feedback on the activities of the Committee and the conduct of meetings. This was positive. Committee members noted uncertainty and risk around the end of the Ombudsman's term of office and questioned the appropriate size of the Committee (temporarily 7 independent members as, to avoid sudden loss of knowledge and experience, new members started before other members reached the end of their terms of office). Members considered that it would be appropriate to undertake a detailed review of the Ombudsman's approach to risk identification, management and mitigation. Members were also keen to ensure that the different responsibilities of the ARAC and the Advisory Panel were clearly

understood, to avoid duplication and minimise overlap. These matters, together with those arising from the NAO Questionnaire will be addressed during 2021/22.

10. Overall Assessment

- 10.1 In developing this Review, 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 considers 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 Jonathan Morgan for his guidance and support during his tenure as Chair of the ARAC and also to the Independent Members of the Committee, Tom Frawley, Jim Martin, Anne Jones, Trevor Coxon, Mike Usher and John McSherry 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 and staff for their contributions throughout the year. Finally, the Chair is grateful to Ann-Marie Harkin and Jeremy Saunders from Audit Wales and Ian Howse and his team at Deloitte LLP for their support and sage advice during the year.

Appendix A - Terms of Reference of the Audit & Risk Assurance Committee Appendix B - Work Programme 2020-2021, updated with actuals Appendix C - Work Programme 2021-2022

Audit & Risk Assurance Committee - Terms of Reference

Status of the Committee

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:

- a minimum of four and a maximum of eight independent external members (who offer specific skills and experience sought by the Ombudsman and may include someone from another ombudsman office)
- up to two co-opted members.

The Chief Operating Officer & Director of Improvement will act as Secretary to the Committee. The Ombudsman, and other Management Team members as determined by the Ombudsman, will attend the Committee's meetings.

The term of office for Independent members will be three years. The Ombudsman has the option to extend this 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 Committee 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.

Role and responsibilities of the Committee

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 Ombudsman and Audit & Risk Assurance Committee may:

- co-opt additional members for a period not exceeding two years to provide specialist skills, knowledge and experience and help the Committee to be representative of the communities the Ombudsman serves;
- seek 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, another independent member 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.

Declaration of Members Interests

Members are required to declare any personal interests in accordance with the PSOW's Policy on [Declaration of Interests](#) by Advisory Panel and Audit & Risk Assurance Committee members.

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.

Reporting

- Each Audit & Risk Assurance Committee meeting 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.

Note: For the avoidance of any doubt and in accordance with these Terms of Reference neither the Audit & Risk Assurance Committee nor any individual members have any role or remit in relation to casework decisions made by the PSOW and have an advisory-only role in operational matters.

Reviewed and approved by Management Team on 13 August 2020 for consideration by the Audit & Risk Assurance Committee on 29 September 2020.

Next Review: September 2021.

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

Planned	Actual & Item No.
May 2020	26 May 2020
Draft Annual Accounts 2019/20 to be circulated to members	
June 2020	1 July
Annual Accounts 2019/20 (including Governance Statement)	6
Audit of Financial Statements Report and Management Letter	7
Financial Monitoring Report	9
Risk Register	13
Internal Audit Reports (if any)	None
Internal/External Audit Recommendations – Progress Report	12
Matters that require reporting to ARAC	14
ITC Projects	16
Annual Whistleblowing Report	15
September 2020	29 September
Financial Monitoring Report	13
Risk Register	14
Internal Audit Reports (if any)	Wellbeing 11b
Internal Audit – Report on progress against Audit Plan	11a
Internal/External Audit Recommendations – Progress Report	15
Review Counter Fraud framework and anti-corruption arrangements	16
Matters that require reporting to ARAC	17
ITC Projects	18
January 2021	27 January
Financial Monitoring Report	7.3
Risk Register	6.1
Internal Audit Reports (if any)	Governance & Risk 5.2a New Powers 5.2b Financial Systems 5.2c
Internal Audit – Report on progress against Audit Plan	5.3
Internal/External Audit Recommendations – Progress Report	5.3/7.1
Review Terms of Reference and Work Programme	8.2
Matters that require reporting to ARAC	Terms of Ref (29 Sept) 7 8.1
ITC Projects	6.3
April 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	

**Public Services Ombudsman for Wales
Audit & Risk Assurance Committee (ARAC) Work Programme 2021-2022**

May 2021

Draft Annual Accounts 2020-2021 to be circulated to ARAC members

July 2021

Annual Accounts 2020-2021 (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

October 2021

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

January 2022

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

April 2022

Nine Month Accounts
 Draft Governance Statement
 External Audit – Summary of Audit Strategy 2022-2023
 ARAC Annual Report
 Financial Monitoring Report
 Risk Register
 Internal Audit – Annual Report 2021-2022
 Internal Audit Annual Plan 2022-2023
 Internal Audit Reports (if any)
 Internal/External Audit Recommendations – Progress Report
 Matters that require reporting to ARAC
 ITC Projects