

## Audit & Risk Assurance Committee's Annual Review 2018/19

### 1. Background

- 1.1 This paper reviews the performance of the Audit & Risk Assurance Committee (ARAC) for 2018/19. Key points are included within the Public Services Ombudsman for Wales's Annual Report & Accounts for the 2018/19 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 Following a review of Governance Arrangements, the Terms of Reference of ARAC were amended during the year so that it is now a stand-alone committee rather than a sub-committee of the PSOW's Advisory Panel. The updated Terms of Reference are attached (Appendix A).

### 3. Membership

- 3.1 Membership comprises up to six independent external members. Three new Independent Members joined the existing membership of Mr Jim Martin, former Scottish Public Services Ombudsman, Dr Tom Frawley CBE, former Assembly Ombudsman and Northern Ireland Commissioner for Complaints and Jonathan Morgan, former Assembly Member and previously Chair of the National Assembly's Public Accounts Committee. The new Members are 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. John Williams' term of office as a member of the Committee ended after the June meeting. The six independent external members are also members of the Advisory Panel.
- 3.2 **ARAC Member Attendance:** Attendance at meetings by Committee Members during the year was as follows:

| Committee Member              | No. of attendances |
|-------------------------------|--------------------|
| Jonathan Morgan (Chair)       | 4                  |
| John Williams (June only)     | 1                  |
| Tom Frawley                   | 4                  |
| Jim Martin                    | 4                  |
| Trevor Coxon                  | 4                  |
| Anne Jones                    | 4                  |
| Ian Williams (from September) | 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 from 1 April each year. In addition, the first agenda item for any ARAC meeting allows 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 new members of the ARAC.
- 4.2 In June 2018, all members at that time took part in a bespoke Governance and Accountability training programme. In addition, in October 2018, the Chair attended a joint Sector Update meeting, run by Deloitte LLP and held at the Future Generations Commissioner's Office. The Ombudsman, Chief Operating Officer and Financial Accountant also attended.

## **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 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; a review of governance arrangements; updates on major IT developments and the development of a Strategic ITC Plan; 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 2018/19 Annual Governance Statement included appropriate information and complied with best practice.

5.8 The proposed 2019/20 Work Programme for the ARAC is attached for information at Appendix C.

## 6. Internal and External Audit

6.1 The internal audit work for 2018/19 was the final year of the three-year internal audit 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:

|   |                       |
|---|-----------------------|
| Information Security                              | SUBSTANTIAL assurance |
| Financial Systems:                                |                       |
| Budgetary Control                                 | SUBSTANTIAL assurance |
| Revenue & Receivables                             | SUBSTANTIAL assurance |
| Payroll   | SUBSTANTIAL assurance |
| Pension Arrangements                              | SUBSTANTIAL assurance |
| Corporate Governance, Risk Management & Follow Up | SUBSTANTIAL assurance |

The Committee was pleased to note that in all audits the level of assurance was considered "Substantial", the highest assurance level.

6.3 The internal auditors' Annual Report for 2018/19 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 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.

6.4 The role of external audit, as required by the Public Services Ombudsman (Wales) Act 2005, has to 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.

- 6.5 An unqualified opinion was given on the Accounts for 2017/18 on 17 July 2018.
- 6.6 The Committee considered the draft Governance Statement of the office for 2018/19.
- 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 through 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 27 March 2019.

## **7. Monitoring Processes**

- 7.1 At each meeting during 2018/19 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 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.

- 8.2 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

Members also commented on an appropriate and useful induction process for Committee Members, the constructive use made of members' experience and knowledge in meetings and the benefits of increased understanding of the organisation arising from members attending both the Committee and the Advisory Panel. This had resulted in open and frank meetings. Several members commented on the quality 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 criticisms. The revised approach to reporting risks was considered to have aided focussed questioning and challenge. 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.

- 8.2 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.
- 8.3 In the third of the assessment exercise 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. One respondent was unable to say whether ARAC Members provide support to PSOW outside of ARAC meetings. Otherwise all responses were positive or very positive about the contribution of the Committee.
- 8.4 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. From these discussions, it was suggested that a pre-meeting be arranged before each Committee meeting, including some time with audit representatives, to support robust scrutiny during the meetings themselves. 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.

## **9. Overall Assessment**

- 9.1 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.

9.2 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.

9.3 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.

9.4 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.

## **10. Acknowledgements**

10.1 The Chair is grateful to the Independent Members of the Committee, John Williams, 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, Geraint Norman and David Williams from the Wales Audit Office, and Ian Howse and his team at Deloitte for their continued support and sage advice during the year.

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| <p>Appendix A - Terms of Reference of the Audit &amp; Risk Assurance Committee</p> <p>Appendix B - Work Programme 2018/19</p> <p>Appendix C – Work Programme 2019/20</p> |
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## **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 Investigations 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 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 15 May 2018 and  
Advisory Panel & Audit & Risk Assurance Committee on 27 June 2018.  
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

**Public Services Ombudsman for Wales  
Audit & Risk Assurance Committee (ARAC) Work Programme 2019/20**

**May 2019**

Draft Annual Accounts 2018/19 to be circulated to ARAC members

**July 2019**

Annual Accounts 2018/19 (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 2019**

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 2019**

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 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)  
Internal/External Audit Recommendations – Progress Report  
Matters that require reporting to ARAC  
ITC Projects