



Arolygiaeth Ei Mawrhydi dros Addysg a Hyfforddiant yng Nghymru
Her Majesty's Inspectorate for Education and Training in Wales

Annual Report of Estyn's Audit and Risk Assurance Committee

2014-2015



1 Purpose

- 1.1 This report summarises the main work of the Estyn Audit and Risk Assurance Committee during the period 1st April 2014 to 31st March 2015. The prime role of the Committee is to provide independent advice to HM Chief Inspector and Accounting Officer of Estyn. During the year therefore the Committee has dealt with the strategic processes for risk, control and governance through the results of the internal and external audits as well as self-evaluation and other processes. The Committee plays a key role in defining aspects of the audit work and monitoring the management responses to the issues raised.
- 1.2 The report describes how the Committee met these responsibilities during 2014/15 and the outcome of the work in relation to further improvements in the governance and management of the organisation. The report is intended to inform the Accounting Officer's Governance Statement that will be included in Estyn's Annual Report and Accounts for 2014/15.

2 The Committee during 2014/15

- 2.1 Membership of the Committee during the year was as follows:

Haydn E Edwards	Non-Executive Director
Judith Fabian	Non-Executive Director (Co-opted from February 2015)
Arwel Thomas	Non-Executive Director
Rheon Tomos	Non-Executive Director

Ex Officio members included:

Ann Keane	HMCI, Estyn
Simon Brown	Strategic Director, Estyn
Phil Sweeney	Corporate Services Director, Estyn

The terms of reference for the Committee can be found within Estyn's Corporate Governance Framework and the remuneration of members is shown within Estyn's Annual Resource Accounts (both documents are available on Estyn's website).

- 2.2 The External Auditors (Wales Audit Office) and the Internal Auditors (Deloitte LLP) continued to provide effective and valued service to the Committee.
- 2.3 As planned, the Committee met on 29 April 2014, 8 July 2014, 5 November 2014 and 4 February 2015 and these were fully attended by all members. There were no other additional meetings during the year in response to events or issues. Representatives of the external and internal auditors were present at all meetings and Michaela Benjamin (Estyn) provided secretarial support for the Committee. Other Estyn staff members attended the Committee when matters related to their responsibilities were discussed and senior Estyn staff attended some meetings as observers.

- 2.4 The standard of the reports, management response, tracking of recommendations and the contribution of all Committee members were constantly noted. The Committee members, functioning well as a group, continued to pose pertinent and timely questions. Members of the Committee have the requisite expertise and experiences.
- 2.5 The Committee has throughout the year continued to operate electronically with all the papers presented to members via the Estyn extranet or by e-mail attachments. Laptops have been available for all members in the meetings. Those present evaluated all meetings and generally the response was positive. Such end of meetings feedback, a feature of all Estyn Governance meetings, enable all present to express their views and result in quality improvements.

3 Control environment

3.1 Internal Audit

3.1.1 During 2014/15 the Audit and Risk Assurance Committee reviewed the following reports provided by the Internal Auditor (Deloitte LLP).

Reports	Assurance rating	Number of recommendations (priority rating)
April 2014 meeting:		
1 Financial Systems i) Budgets, General Ledger & Accounting ii) Cash Management, Revenues & Receivables iii) Payroll iv) Purchasing & Payments	Substantial	1 (Medium) 5 (Low)
2 Health and Safety	Substantial	1 (Medium) 2 (Low)
3 Strategic Planning & Corporate Governance & Risk Management (follow-up)	Full	None

November 2014 meeting:		
1 IT General Controls	Substantial	2 (Low)
February 2015 meeting:		
1 Travel, Subsistence & Other Expenses	Substantial	3 (Low)
2 Procurement and Contract Compliance	Substantial	1 (Medium) 4 (Low)
3 Corporate Governance – KPIs	Full	1 (Low)
4 Risk Management	Substantial	1 (Low)
5 Financial Systems		
i) Budgets, General Ledger & Accounting	Full	None
ii) Cash Management, Revenues & Receivable	Full	None
iii) Purchasing & Payments	Substantial	1 (Low)
iv) Financial Risk Management Processes	Substantial	2 (Medium)

In all the meetings, the internal auditors provided reports on the progress being made on implementing audit recommendations and this work was valued by the Committee. The internal auditors also advised the Committee of two unannounced 'spot-check' visits that had taken place during October 2014 and December 2014 covering:

- Payments processed directly by the Financial Services Manager (October 2014 only)
- Journal authorisation
- Bank reconciliation
- Controls around BACS runs
- Acknowledgement of complaints and
- New process for changes to supplier bank account details (December 2014 only).

No issues were identified. The internal audit work has been performed in compliance with the Public Sector Internal Audit Standards.

3.1.2 The nine reports received by the Audit Committee during 2014/15 included five areas where a full assurance rating was received, with all other areas reviewed receiving substantial assurance rating. A total of 20 low and 5 medium priority rating recommendations were presented. The Committee noted the thoroughness of the recommendations and the open and positive response by Estyn management.

3.1.3 In the July 2014 meeting, the Internal Auditor presented a report on their work for the period 1st April 2013 to 31st March 2014. Eight audit assurance assignments were undertaken during this period. **Two** reports provided **full assurance** and **six** gave **substantial assurance**. A total of 13 new recommendations, all of low priority status, were presented. For the previous year 16 recommendations had been raised

and it was pleasing to note that 13 have been fully implemented, two have been partly implemented and one has been partly implemented and will be subject to further spot checks. The report concluded that Estyn had effective risk management control and governance processes to manage the achievements of the organisation's objectives. The Deloitte report also noted that **the overall assessment for both Governance and risk management was full assurance.**

3.1.4 The Internal Audit Programme of Work was discussed during the April 2014 meeting. This sets out the internal audit activity for the period 2014/15 and is flexible to adapt to the emerging changes in the organisation and its environment. Appendix 1 shows the programme of internal audits and the year in which reports were reviewed by the Audit Committee for the past three years, and includes audit reports reviewed at the first committee meeting of 2015/16.

3.1.5 The tracking system for the recommendations in each audit report has continued to be used during the year and includes information such as date for completion for specific actions, ownership, progress reports by management and whether the actions had been completed by Estyn and verified by Internal Audit. This comprehensive tracking system has been well received by users and the Audit and Risk Assurance Committee. It is pleasing to note that the overwhelming majority of the recommendations are signed off within the agreed time (as noted in 3.1.3 above) and that explanations for any slippages are reasonable and pragmatic. The Head of Internal Audit's assurance statement for 2014-15 concludes that '**Estyn has a basically sound system of internal control, which should provide substantial assurance regarding the achievement of Estyn's objectives**'.

3.1.6 The quality of the audit work and that of the Committee has been evaluated during the year using several different methods:

- end of meeting evaluation
- tracking of the actions agreed in each Committee meeting
- self-assessment checklist completed by members
- self-evaluation by the Committee
- annual appraisal of Non-Executive Directors by HMCI/Accounting Officer
- annual review of Terms of Reference
- annual meeting with the Internal and External Auditors
- discussion following Chairs of Audit and Risk Committee of Welsh Government Sponsored Bodies (WGSB) meetings

These evaluations led to minor changes in the work of the Committee, for example, enhancing the process for declaring member interests, adding a review of financial risk profiles to the Committee agenda schedule and increasing shared learning with other bodies in relation to governance, audit and risk matters.

3.2 External Audit

3.2.1 The WAO (Wales Audit Office) presented the Audit Deliverables document in the April 2014 meeting for the auditing of the 2013/14 Estyn financial statement. This document clarified the relative responsibilities of Estyn and the WAO. The fee structure for the services of the External Auditors continued to be discussed during

the year. As a result of the Audit Act 2013, the WAO have revised their cost allocation methodology and have provided more information about their fees.

3.2.2 The Audit work for 2013/14 accounts was reviewed in the July 2014 meeting of the Audit and Risk Assurance Committee. The Wales Audit Office (WAO) indicated, following the ISA 260 report to those charged with governance, that they intended to **issue an unqualified audit opinion** and were satisfied for HMCI as Accounting Officer to sign off the 2013/14 accounts. They also noted that the **accounts had been delivered to deadline and to quality standards.**

3.2.3 WAO deemed that matters arising from the audit of the accounts were relatively minor and therefore drew attention to these in a letter to the Corporate Services Director rather than issuing a formal Management Letter. This letter, which was discussed with the Committee at the November 2014 meeting, confirmed that the **financial statements** were given an **unqualified opinion** and were signed by the Auditor General on 22 July and were **laid before the National Assembly for Wales on 23 July 2014.** The letter also confirmed that the auditor had no concerns about the qualitative aspects of Estyn's accounting practices and financial reporting and that **the audit did not identify any material weaknesses in internal controls.**

3.2.4 In February 2015, the External Auditors presented their Audit Plan for 2015 and highlighted some risks. The Plan also included the Audit fee for 2015/16, which was flat-lined from 2014/15. The Committee holds the view that 59 days and the resulting audit fee, for a relatively uncomplicated audit of Estyn's accounts, appears excessive.

4 Co-operation between Internal and External Audit

A statement was presented to the July 2014 meeting of the Audit Committee showing how the Internal and External Auditors are communicating and working together to minimise the level of any duplicated work. Protocols and relative roles were set out in the statement and this is reviewed annually.

The Committee is satisfied with the quality of service provided by the Internal and External Auditors.

5 Corporate Governance

5.1 Throughout the year, the Audit and Risk Assurance Committee has continued to operate in accordance with the **code of good practice for Corporate Governance** and key documents have been shared over recent years and used in the course of the work. The NAO **Good Practice Guide (Helping your Audit Committee to add value)** was used to identify improvements.

5.2 The terms of reference of the Audit Committee has been circulated to all members with the papers in order to ensure that the Committee is focused on its prime responsibilities. In November 2014, Estyn's Corporate Governance Framework was reviewed and the Committee's Terms of Reference was updated.

- 5.3 The Governance Statement, developed during the year, has become a central part of the Committee's deliberations and provides detail of Estyn's governance, risk management and internal controls. The Governance Statement has been on the Committee's agenda throughout 2014/15. In recent months, the Corporate Services Director has further developed the diagrammatic summary of "Estyn assurance framework arrangements" and this has also been a helpful guide to the Committee's work.
- 5.4 The annual Committee self-evaluation, with the support of the Internal Auditor, has resulted in several improvements over the years. The actions resulting from the self-evaluation in May 2013 have been implemented and the members have valued attending Estyn's Annual Staff conference and various presentations made throughout the year by Estyn officers to non-executive directors. Training and development needs are further discussed as part of the annual appraisal process conducted with HMCI. The self-evaluation exercise in February 2015 raised the following suggestions:
- consideration be given to attending other Audit and Risk Assurance Committees, as part of a "twinning" arrangement with another public body
 - the induction processes of new Committee members be reviewed during the year in order to learn from the experiences of two new members
 - the Committee foster staff updates on specific projects, especially after the work area has been audited
- 5.5 The standing item on legal and regulatory updates from the Internal and External Auditors ensures that the members are fully apprised on any changes affecting Estyn's legal, reporting or compliance position, in so far as it effects the work of the Committee. HMCI provides an oral update in each meeting on the developments within Estyn and any external changes that might have a bearing on the Committee's work and responsibilities.

6 Risk and Fraud

- 6.1 The Strategic and Corporate Risk Registers were received in the November 2014 meeting and several modifications were made following suggestions by members. The Committee remains satisfied that Estyn has an appropriate Risk Management Policy which is overseen by the Board and that its risk register adequately reflects the risks that Estyn faces and their likely impact. The risk register also notes the management actions that have been taken to mitigate and eliminate the risks. As Committee members also serve as non-executive directors on the Estyn Board they have high visibility of risks and direct involvement in discussions of risk management strategies and actions.
- 6.2 A case involving fraudulent use of an Estyn telephone line by an unknown external party arose at the end of the 2013-14 year. The Committee discussed this case during its April 2014 meeting and was satisfied that appropriate action had been taken by Estyn management; details were included within the Governance Statement for 2013-14.

- 6.3 A further fraud incident, involving supplier invoice payments to a fraudulent bank account, was brought to Members attention during the year. The Committee is satisfied that appropriate action was taken by management to report the fraud (and include details within the annual Governance Statement) and to minimise the potential for future fraudulent activity, including: fraud awareness training for Estyn staff; additional checks and procedural controls within the Finance team; and, widening the scope of internal audit reviews to specifically include financial risk management.

7 Sharing Good Practice

During the year two meetings have been held with the Chairs of the Audit and Risk Committees of the Welsh Government Sponsored Bodies (WGSB) in order to discuss issues of common interest and share good practice during the year. Feedback from both meetings (May 2014 and November 2014) has been presented to the Committee and, as a result of some non-executive directors also having audit duties external to Estyn, at least two Committee members of have been able to attend.

8 Additional Matters

During the year the Committee has received information and reviewed the following matters:

- annual assurance statement provided by Welsh Government regarding the payroll process
- HM Treasury's proposed changes to the assurance ratings used for internal audit reports
- Estyn's Whistleblowing statement and draft policy
- details of four waivers and departures
- The Future Generation Bill
- HM Treasury DAO (Dear Accounting Officer) in relation to providing compensation following the termination of contracts
- HM Treasury's publication on streamlining annual reports and accounts
- members' interest forms being made available in all future Committee meetings
- update to Estyn's Anti-Fraud Policy
- preparation for and protocols for the Public Accounts Committee (PAC)

9 Conclusion

The Committee has operated to a high standard during the year and has received appropriate, regular and timely information about the production of Estyn's resource accounts and in particular about Estyn's control environment. **The Committee remains satisfied that when completing the Governance Statement the Accounting Officer can be substantially assured that Estyn's control, risk and governance position in 2014-15 was sound.**

10 Acknowledgements

I am grateful to all those attending the Committee for their work and contribution during the year. The work of Phil Sweeney and Michaela Benjamin supported by other staff, have been central to the committee's work and their contributions valued. I am also grateful to Matthew Coe and Phil Pugh from the Wales Audit Office and Ian Howse and Katherine Rankin from Deloitte for their support and advice during the year.

Dr Haydn E Edwards
Chair of the Estyn Audit Committee for the year 2014-2015
July 2015

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Appendix1: Internal audits undertaken and/or reviewed by Audit Committee (3-year programme)							
Audit area	Audit programme	Committee review	Level of assurance	High priority	Medium priority	Low priority	Total
Safeguarding	2014-15	2015-16	Substantial	-	1	2	3
Financial Risk Management Processes	2014-15	2014-15	Substantial	-	2	-	2
Purchasing & Payments	2014-15	2014-15	Substantial	-	-	1	1
Cash Management, Revenues & Receivables	2014-15	2014-15	Full	-	-	-	-
Budgets, General Ledger & Accounting	2014-15	2014-15	Full	-	-	-	-
Risk Management	2014-15	2014-15	Substantial	-	-	2	2
Corporate Governance - KPIs	2014-15	2014-15	Full	-	-	1	1
Procurement & Contract Management	2014-15	2014-15	Substantial	-	1	4	5
Travel, Subsistence & Other Expenses	2014-15	2014-15	Substantial	-	-	3	3
IT General Controls	2014-15	2014-15	Substantial	-	-	2	2
Corporate Governance and Risk Management (Follow-up) & Strategic Management	2013-14	2014-15	Full	-	-	-	-
Health & Safety: Induction	2013-14	2014-15	Substantial	-	1	2	3
Health & Safety: Risk Assessment	2013-14	2014-15	N/A – Advisory	N/A	N/A	N/A	N/A
Budgets, General Ledger & Accounting	2013-14	2014-15	Substantial	-	-	1	1
Cash Management, Revenue and Receivables	2013-14	2014-15	Substantial	-	1	1	2
Payroll	2013-14	2014-15	Substantial	-	-	1	1
Purchasing and Payments	2013-14	2014-15	Substantial	-	-	2	2

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Complaints Management	2013-14	2013-14	Full	-	-	1	1
HR: Recruitment, New Appointments, & Staff Performance (Follow-up)	2013-14	2013-14	Substantial	-	-	3	3
Budgets, General Ledger and Accounting	2012-13	2013-14	Substantial	-	-	4	4
Purchasing and Payments	2012-13	2013-14	Full	-	-	2	2
Quality Assurance of Additional Inspectors	2012-13	2013-14	Full	-	-	1	1
Assets and Inventories	2012-13	2013-14	Substantial	-	-	2	2
Cash Management, Revenues and Receivables	2012-13	2013-14	Full	-	-	-	-
Risk Management	2012-13	2013-14	Full	-	-	1	1
Corporate Governance	2012-13	2013-14	Full	-	-	-	-
Data Protection Act, Freedom of Information Act, and, Environmental Reporting Regulations	2012-13	2012-13	Substantial	-	-	6	6