



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

2016-2017



1 Purpose

- 1.1 This report summarises the main work of the Estyn Audit and Risk Assurance Committee during the period 1st April 2016 to 31st March 2017. 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 2016/17 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 2016/17.

2 The Committee during 2016/17

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

Judith Fabian	Non-Executive Director
Arwel Thomas	Non-Executive Director
Rheon Tomos	Non-Executive Director (Chair)

Ex Officio members included:

Meilyr Rowlands	HMCI, Estyn
Simon Brown	Strategic Director, Estyn
Phil Sweeney	Corporate Services Director, Estyn
Claire Morgan	Strategic Director

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 During 2016/17 Wales Audit Office continued to provide External Audit service and RSM provided Internal Audit service.
- 2.3 As planned, the Committee met on 3 May 2016, 5 July 2016, 1 November 2016 and 1 February 2017 and these were fully attended by all members. It is normal practice for post year-end meetings to consider reports relating to the previous financial year and this year is no exception. It is noted that these meetings were also attended by all members of committee.
- 2.4 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.

- 2.5 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.
- 2.6 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 Based on an agreed programme of work (established following an Audit Needs Assessment process) the Audit and Risk Assurance Committee reviewed the following reports provided by the Internal Auditor (RSM).

Reports	Assurance rating	Number of recommendations (priority rating)
1 Complaints Management	Substantial	1 (Low)
2 Civil Service Pensions Scheme – Accounting Officer Certificate	Validated statements made in annual return Substantial	None
3 Staff Performance Management	Substantial	1 (Medium) 3 (Low)
4 Creditors and Procurement	Substantial	4 (Low)
5 Governance (Strategic Performance Monitoring) & Risk Management	Substantial	None
6 Expense Claim Validation Reviews (x2)	Compliance	None
7 Unannounced Spot Checks and Recommendation Tracking(x2)	Compliance	None
8 Deployment of Peer Inspectors	Reasonable	1 (Medium) 4 (Low)
9. Fraud Risk Management	N/A – advisory report	1 (Medium) 1 (Low)

In addition to the above RSM facilitated a Project Management Workshop as a follow-up to the 2015/16 advisory review.

3.1.2 Internal Audit coverage is planned in order to provide a reasonable level of assurance that Estyn's key governance and risk management systems are operating

effectively and that there are sound internal controls in place. With this in mind it is pleasing to report that RSM have provided substantial assurance for all but one audit with the other Deployment of Peer Inspectors audit attracting reasonable assurance. It should be noted that no high level recommendations have arisen this year that would have required immediate attention. The majority of recommendations were advisory and low risk albeit there were a small number of medium risk areas. RSM have commented that they are satisfied with management's responses to these recommendations and accept that in some cases there is a balance to be achieved between reducing risk and implementing costly control procedures.

3.1.3 A further feature of the Internal Audit coverage is to undertake follow-up reviews of previously agreed recommendations together with compliance or spot check reviews. 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. It is pleasing to note that RSM reported a high level of compliance praising Estyn for the levels of implementation of previous recommendations. As a Committee we are also grateful to RSM for providing updated recommendations in some areas that reflect either changes in procedures or practices. This approach complements the other core systems reviews and provides a fresh perspective to the audit process.

3.1.4 The Head of Internal Audit's assurance statement for 2016-17 concludes that '**The organisation has an adequate and effective framework for risk management, governance and internal control**'. RSM have provided an assurance that there are no conflicts of interest that they wish to report and that they have complied with Public Sector Internal Audit Standards in undertaking their audit work.

3.2 External Audit

3.2.1 The WAO (Wales Audit Office) presented the Audit Deliverables document in the May 2016 meeting for the auditing of the 2015/16 Estyn Annual Report and Accounts. This document clarified the relative responsibilities of Estyn and the WAO.

3.2.2 The Audit work for 2015/16 accounts was reviewed in the July 2016 meeting of the Audit and Risk Assurance Committee. The Wales Audit Office (WAO) indicated, within 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 2015/16 accounts. Some corrected mis-statements to the financial statements were drawn to the Committee's attention for information. WAO indicated that there were no conflicts of interest on their part. They also noted that **the accounts had been delivered to deadline and to quality standards, and, the audit did not identify any material weaknesses in internal controls.**

3.2.3 WAO deemed that matters arising from the audit of the accounts were relatively minor and therefore drew attention to these in post-audit discussions with the Finance team rather than issuing a formal Management Letter. The **financial statements** were given an **unqualified opinion** and were signed by the Auditor General on 13 July and were **laid before the National Assembly for Wales on 14 July 2016.**

3.2.4 In February 2017, the External Auditors presented their Audit Plan for 2016/17 and highlighted some risks. The Plan also included the Audit fee for 2016/17, which was broadly comparable with 2015/16.

4 Co-operation between Internal and External Audit

- 4.1 A statement was presented to the July 2016 meeting of the Committee showing how the Internal and External Auditors are communicating and working together to minimise the level of any duplicated work. RSM and the WAO have advised the Committee that continued dialogue and co-ordination has taken place this year.
- 4.2 The Committee is satisfied with the quality of service provided by the Internal and External Auditors.

5 Corporate Governance

- 5.1 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 and an annual evaluation
 - tracking of the actions agreed in each Committee meeting
 - 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
- 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. Estyn's Corporate Governance Framework is also frequently under review at the Strategy Board and the Committee's Terms of Reference updated as appropriate.
- 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 2016/17.
- 5.4 The annual Committee self-evaluation has resulted in several improvements over the years. Examples include attending Estyn's Annual Staff conference, Stakeholder events and various presentations made throughout the year by Estyn officers to non-executive directors. Based on Committee members and staff feedback such attendance is appreciated, particularly in terms of seeking improvements, thus making the Committee's work more relevant.
- 5.5 Further to a self-evaluation exercise conducted in February 2015 it was suggested that consideration be given to attending at other Audit and Risk Assurance Committees, as part of a "twinning" arrangement with another public body. All 3 Non-Executives subsequently attended other recommended sites and the learning from this process was discussed at the November meeting. It is pleasing to note that no

gaps or weaknesses in overall coverage were identified, indeed the exercise confirmed many aspects of good practice at Estyn with only some minor enhancements being suggested. A further discussion and feedback from the WGSB Chairs forum on Audit & Risk Committee effectiveness has also been a useful reminder for the Committee this year in terms of measuring its performance. The Committee strives to continuously improve and thus it is grateful to all that contribute to its work in such a positive manner.

- 5.6 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 affects the work of the Committee. The Corporate Services Director also provides regular updates from WGSB Finance Officers Sub-Group including any relevant DAO correspondence. 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.
- 5.7 During a Chair of WGSB meeting the Wales Audit Office presented represented bodies with some 'informal' comparative information on the completeness and quality of the 2015/16 Annual Report and Accounts. Estyn's feedback report was very positive with only a few areas of improvement identified. The Committee has commended Estyn's staff for this positive outcome.

6 Risk and Fraud

- 6.1 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 The Committee is also satisfied that it is adequately informed of cases of fraud or potential fraud as and when they arise and that Estyn has provided staff with sufficient visibility and training as to how to deal with such instances. We are also advised by our External and Internal Auditors where detected fraud has been identified and an appropriate liaison arrangement has been established with the fraud expert support office in Welsh Government.

7 Additional Matters

- 7.1 During the year the Committee has received information and reviewed the following matters:
- a summary of the main changes to Managing Welsh Public Money
 - details of all waivers and departures
 - an Institute of Internal Auditors Paper – Auditing Culture
 - Consultancy costs annual report
 - WAO return – Audit enquiries to those charged with Governance and Management

8 Conclusion

- 8.1 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 2016-17 was sound.**

9 Acknowledgements

- 9.1 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 Anthony Barrett and Phil Pugh from the Wales Audit Office and Helen Cargill and Alastair Campbell from RSM for their support and advice during the year.

Rheon Tomos
Chair of the Estyn Audit and Risk Assurance Committee
June 2017