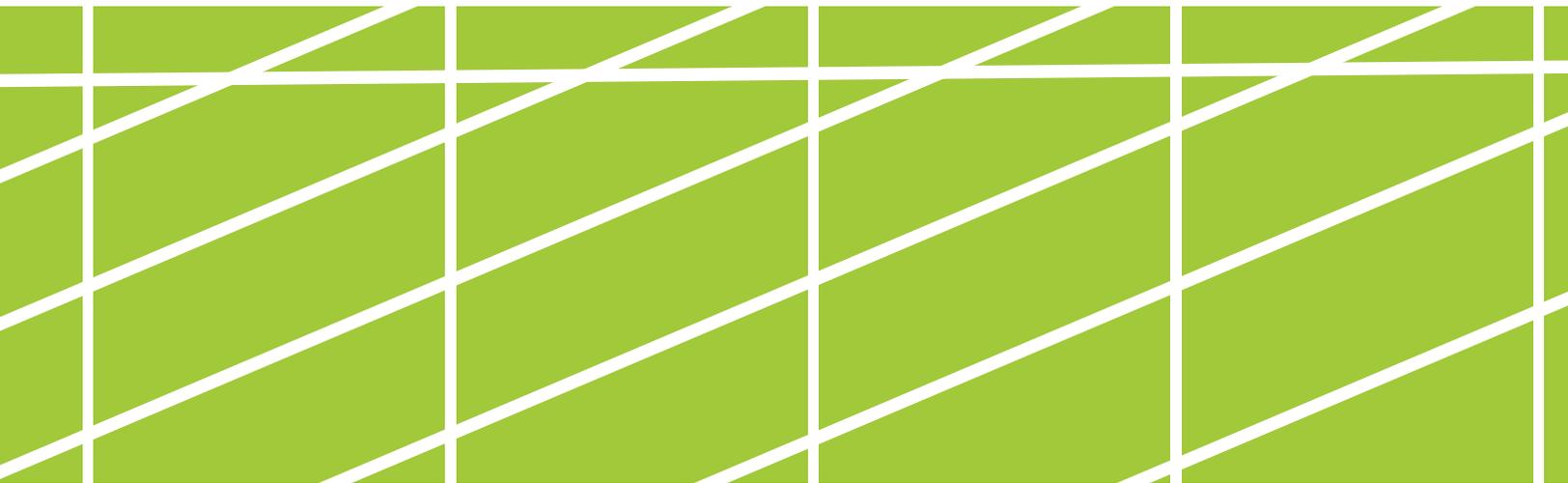




Arolygiaeth Ei Mawrhydi dros Addysg a Hyfforddiant yng Nghymru
Her Majesty's Inspectorate for Education and Training in Wales

Annual Report of Estyn's Audit and Risk Assurance Committee

2015-2016



1 Purpose

- 1.1 This report summarises the main work of the Estyn Audit and Risk Assurance Committee during the period 1st April 2015 to 31st March 2016. 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 2015/16 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 2015/16.

2 The Committee during 2015/16

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

Haydn Edwards	Non-Executive Director (to August, 2016)
Judith Fabian	Non-Executive Director
Arwel Thomas	Non-Executive Director
Rheon Tomos	Non-Executive Director

Ex Officio members included:

Ann Keane	HMCI, Estyn (retired 31 May, 2015)
Meilyr Rowlands	HMCI, Estyn (from 1 June, 2015)*
Simon Brown	Strategic Director, Estyn
Phil Sweeney	Corporate Services Director, Estyn
Claire Morgan	Acting Strategic Director (from June, 2015)

* Meilyr had attended previous meetings during the period as an observer.

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 Wales Audit Office continued to provide External Audit service to the Committee during 2015/16. Following a competitive tendering exercise Estyn appointed RSM to provide its Internal Audit service. Chair of Committee Rheon Tomos was a member of the appointment team.
- 2.3 As planned, the Committee met on 5 May 2015, 3 July 2015, 3 November 2015 and 3 February 2016 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. However, due to the changeover in Internal Audit provision during 2015/16 more reports than normal were discussed at post year-end committee meetings. 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 Key Financial Controls Systems – Payroll and Budgetary Control	Substantial	2 (Low)
2 Information Governance	Substantial	2 (Medium) 3 (Low)
3 Assets and Inventories	Reasonable	7 (Low)
4 Quality Assurance of Inspections	Substantial	3 (Low)
5 Governance, Risk Management and Assurance	Substantial	1 (Medium) 3 (Low)
6 Expense Claim Validation Reviews (x2)	Compliance	1 (Medium) 2 (Low)
7 Unannounced Spot Check (x2)	Compliance	1 (Low)
8 Recommendation Tracking (x2)	Follow-up	1 (Medium) 4 (Low)

In addition to the above RSM completed a high-level Project Management advisory review which is currently being reviewed by the Executive Team. A further review of Civil Service Pension compliance is also in progress.

- 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 Assets and Inventories 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 handful 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 (based on the agreed recommendations identified by our previous Internal Auditors, Deloitte) 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 Some follow-up work arising from a previous recommendation regarding the robustness and safety surrounding Estyn's ICT arrangements was also requisitioned during the year from an expert penetration assessment provider. The Committee received a summary report of the findings which provided some positive assurances that current arrangements can be relied upon.
- 3.1.5 The Head of Internal Audit's assurance statement for 2015-16 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 2015 meeting for the auditing of the 2014/15 Estyn financial statement. This document clarified the relative responsibilities of Estyn and the WAO.
- 3.2.2 The Audit work for 2014/15 accounts was reviewed in the July 2015 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 2014/15 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 15 July and were **laid before the National Assembly for Wales on 16 July 2015**.

3.2.4 In February 2016, the External Auditors presented their Audit Plan for 2015/16 and highlighted some risks. The Plan also included the Audit fee for 2015/16, which was a small reduction 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

- 4.1 A statement was presented to the July 2015 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. The change in Internal Audit provider this year has meant that there has been a need to revisit these protocols and respective roles to maximise the use of audit resources. RSM and the WAO have advised the Committee that continued dialogue and co-ordination has taken place this year with some examples of flexibility in delivery e.g. ICT work.
- 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
 - tracking of the actions agreed in each Committee meeting
 - a self-assessment checklist completed by members*
 - 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

*This year's self-appraisal included an assessment of performance against 33 good practice questions derived from a number of guidance sources. An analysis of returned questionnaires, received from all Committee members, provides a positive indication that the Committee is operating effectively as all answers were either 'strongly agree' or 'agree'.

- 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. Some minor changes were agreed during the year (e.g. adding an item to include financial risks profile review). 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 2015/16.
- 5.4 The annual Committee self-evaluation 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 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 have now attended other recommended sites and the learning from this process will be analysed and discussed over coming months.
- 5.5 The induction processes of new Committee members have been reviewed and appropriate action taken this year; the Committee has continued to promote staff attendance at meetings to provide development opportunities for both staff and members – we are pleased that there were again this year examples of such attendance.
- 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.

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 Sharing Good Practice

- 7.1 During the year 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 these meetings has been presented to the Committee.

8 Additional Matters

- 8.1 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
 - FRC Guidance on The Strategic Report
 - NAO – Examples of Good Practice in Annual Reports
 - Consultancy costs annual report
 - WAO return – Audit enquiries to those charged with Governance and Management

9 Conclusion

- 9.1 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 2015-16 was sound.**

10 Acknowledgements

- 10.1 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 Ann-Marie Harkin, 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
July 2016