



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

2021-2022

This report is also available in Welsh.

1 Purpose

- 1.1 This report summarises the main work of the Estyn Audit and Risk Assurance Committee during the period 1st April 2021 to 31st March 2022. 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 2021-2022 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 2021-2022.

2 The Committee during 2021-2022

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

Judith Fabian	Non-Executive Director
Arwel Thomas	Non-Executive Director (Chair)
Ronnie Alexander	Non-Executive Director
Emyr Roberts	Non-Executive Director (co-opted from 1 June 2021)

Estyn management attendees included:

Meilyr Rowlands	HMCI, Estyn (to 31 August 2021)
Owen Evans	HMCI, Estyn (from 1 January 2022)
Jassa Scott	Strategic Director, Estyn
Phil Sweeney	Corporate Services Director, Estyn (to 31 December 2021)
Claire Morgan	Strategic Director, Estyn (Acting HMCI 1 September to 31 December 2021)
Mererid Wyn Williams	Corporate Services Director, Estyn (from 1 January 2022)

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). The Committee is grateful to Phil Sweeney for the role he has played in ensuring the efficiency and effectiveness of the Committee and wishes him well as he takes up his new role within the organisation. The Committee welcomes Mererid Wyn Williams to be the key contact and facilitator for the Committee's programme of work.

- 2.2 During 2021-2022, Audit Wales (AW) continued to provide External Audit service and RSM provided Internal Audit service.
- 2.3 As planned, the Committee met on 5 May 2021, 5 July 2021, 3 November 2021 and 8 February 2022 and these meetings were fully attended by those listed above. It is normal practice for meetings to consider reports relating to audit work completed

both within the current year and previous financial year where the audit field work was completed close to the year-end; this was the case in 2021-2022.

- 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 Robert Gairey (Estyn) provided secretarial support for the Committee. Other Estyn staff members attended the Committee when matters related to their responsibilities were discussed.
- 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. All meetings were held remotely using Microsoft Teams, and any technical issues were addressed quickly with Committee members, to ensure that meetings were straightforward and proceeded without technical "hitches". Those present evaluated all meetings and generally the response was positive. Such end of meetings feedback, a feature of all Estyn Governance meetings, enables all present to express their views and result in quality improvements.

3 Control environment

3.1 Internal Audit

- 3.1.1 Following a formal procurement exercise the contract for the provision of internal audit services was re-awarded to RSM in May 2019 for an initial period of one-year with provision for extension for up to two more years subject to performance reviews. In awarding the contract a new approach to audit work, based on jointly-working to produce assurance maps for specific Estyn activities, was agreed between Estyn and RSM. These assurance reports have helped to further embed good practices for risk identification and management processes, and the contract was extended for a year in May 2020, and a further year in Mar 2021.
- 3.1.2 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)
Governance	Substantial	2 (Low)
Stakeholder engagement	Reasonable	2 (Medium)
Key financial controls	Substantial	0
HR Performance management	Reasonable	2 (Low) 4 (Medium)
Follow Up	Good Progress	5 (Low)

- 3.1.3 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 not found it necessary to make any high level recommendations. 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.

- 3.1.4 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.
- 3.1.5 David Broughton remained as the Head of Internal Audit for the whole of the financial year. RSM has 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. Their annual plan for 2021-2022 states **"We are not aware of any relationships that may affect the independence and objectivity of the team, and which are required to be disclosed under internal auditing standards."**
- 3.1.6 RSM's annual opinion for the 12 months ended 31 March 2022 states that **"The organisation has an adequate and effective framework for risk management, governance and internal control."** This is the highest level of opinion that RSM provide in their annual reports.

3.2 External Audit

- 3.2.1 Audit Wales (AW) presented the Audit Deliverables document in the May 2021 meeting for the auditing of the 2020-2021 Estyn Annual Report and Accounts. This document clarified the relative responsibilities of Estyn and AW.
- 3.2.2 The Audit work for 2020-2021 accounts was reviewed in the July 2021 meeting of the Audit and Risk Assurance Committee. Within the ISA 260 report to those charged with governance, AW **issued a qualified audit opinion** and indicated where they had material concerns about some aspects of the accounts; following the Letter of Representation an **unqualified audit opinion** was issued, AW stating that they were satisfied for HMCI as Accounting Officer to sign off the 2020-2021 accounts. AW indicated that there were no conflicts of interest on their part.
- 3.2.3 AW drew attention to a few areas where improvements could be made. Due to errors identified through AW's initial testing of non-pay expenditure prepayment and accruals, they extended our testing, which identified a further error. Further work to assess the risk of material misstatement led to the conclusion that there was no remaining risk of material misstatement, though there remained a risk that non-material errors could exist. They therefore made a recommendation to improve procedures around prepayments, accruals, bank reconciliations and Non-Current

Assets. Following the Letter of Representation, the **financial statements** were given an **unqualified opinion** and following signing by the Auditor General were **laid before the National Assembly for Wales in July 2021**.

4 Co-operation between Internal and External Audit

- 4.1 The Committee has discussed how the Internal and External Auditors are communicating and working together to minimise the level of any duplicated work. RSM and AW 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 self-evaluation by members
 - 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
- 5.2 The terms of reference of the Committee have 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 Central Services Director's quarterly assurance statement continued to be a central part of the Committee's deliberations and provides detail of Estyn's governance, risk management and internal controls. This statement informs the Governance Statement, which has been on the Committee's agenda throughout 2021-2022.
- 5.4 In May each year the Committee reviews the Finance Team risks. This is a specific risk register, which focuses on the risks associated with Estyn's financial processes and procedures. The risks include an assessment of the controls to detect fraud and an evaluation of the effectiveness of the segregation of duties.
- 5.5 As in previous years the Committee has applied high governance standards. Facilitated by the Central Services Director, members undertook a self-review of effectiveness based on responses and actions recorded in 2020 against the the NAO toolkit to assess the Committee's effectiveness. Review against the NAO's toolkit enabled the members to conclude that the Committee operated effectively and could demonstrate sound practice, with evidence of supportive challenge to both management and auditors. Some further actions designed to build upon the Committee's existing practices were identified:

- Ensure that an annual meeting with the Welsh Government Accounting Officer's representative takes place, with an invitation to attend an ARAC meeting to observe proceedings
- Invite external experts on topics such as cyber-security and counter fraud to address the Committee; explore the possibility of an agreement between sponsored bodies to provide external advisers on an exchange basis
- Continue to extend the content of the Central Services Directors quarterly assurance statements and include evidence of assurances relating to externally-provided services, such as payroll
- Enhance members' understanding of, and ability to scrutinise, annual accounts, through attending a training session on financial terminology, funding arrangements and accounting policies
- Review and enhance the induction programme for new members to include briefings with outgoing member/s

5.6 Members felt that the 'improvement' culture in the organisation continued to be reflected in all that came before the Committee. The Committee strives to continuously improve and thus it is grateful to all that contribute to its work in such a positive manner.

5.7 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 Central Services Director also provides regular updates from WGSB Heads of Resources Group, and its 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 there is an adequate process in place to inform 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 the Welsh Government. The Corporate Services Director's assurance reports provided confirmation to ARAC that no instances of fraud or suspected fraud had arisen during the year.

7 Additional matters

- 7.1 During the year the Committee has received information and reviewed the following matters:
- details of all waivers and departures
 - Consultancy costs annual report
 - AW return – Audit enquiries to those charged with Governance and Management
 - Various papers and updates provided by RSM and AW

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 2021-2022 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, Mererid Williams and Robert Gairey, supported by other staff, has been central to the committee's work and their contributions are valued. I am also grateful to Amanda Hughes, Clare James and Gareth Lucey from Audit Wales and Clare and David Broughton from RSM for their support and advice during the year.

Arwel Thomas
Chair of the Estyn Audit and Risk Assurance Committee
July 2022