Annual Report to the National Assembly for Wales Commission for the year ended 31 March 2017

June 2017



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Introduction

- 1. The Assembly Commission Audit and Risk Assurance Committee (the Committee) is pleased to present this report on its work for the year ended 31 March 2017, the first year of the Fifth Assembly.
- 2. The report focuses on the Committee's work in relation to the Commission's governance arrangements, risk management, internal control and assurance framework. It highlights: the remit of the Committee; the work undertaken and associated findings and recommendations; the Committee's proposed focus for 2017-18; and our overall conclusions.
- 3. It has been a year of significant change, with the passage of the Wales Act 2017; a new Commission appointed following the May 2016 election; and the recruitment of a new Chief Executive and Clerk of the Assembly who took up post on 24 April.
- 4. The Commission agreed a revised set of Governance Principles and a revised strategy which outlined an ambitious set of strategic priorities for the first two years of the Fifth Assembly.

Role of the Committee

- 5. The Committee supports the Commission and the Accounting Officer with regard to their responsibilities for risk management, internal control and corporate governance.
- 6. The Committee acts in an advisory capacity and has no executive powers. It provides advice on the comprehensiveness, reliability and integrity of assurances, including internal and external audit. The Committee's Terms of Reference (appendix 1) and forward work programme are produced in accordance with HM Treasury guidance.
- 7. The Committee's **current membership** (an Assembly Commissioner, two Independent Advisers and an Independent Committee Member) is published on the Commission's website. The following also regularly attended Committee meetings during the year:
 - Claire Clancy Chief Executive and Clerk of the Assembly (the Commission's Accounting Officer)
 - Nia Morgan Director of Finance
 - Dave Tosh Director of Resources
 - Gareth Watts Head of Internal Audit
 - Ann-Marie Harkin Engagement Lead, Wales Audit Office
 - Matthew Coe Audit Manager, Wales Audit Office
 - Kathryn Hughes Risk and Governance Manager; Committee Clerk
 - Buddug Saer Deputy Committee Clerk
- 8. Other Assembly Commission officials also attended meetings as required.
- 9. The Committee held private meetings with the external and internal auditors, the Chief Executive and Clerk of the Assembly and her senior leadership team to ensure that relationships remain effective.

10. The Committee reports to the Commission via the Accounting Officer after each meeting, and publishes its meeting minutes on the Assembly **website**. The Committee Chair also attends a meeting with Commissioners to present the Committee's Annual Report.

Activity and Considerations

- 11. The Committee met six times during the year, with activity guided by its forward work programme. Standard agenda items included:
 - the 2015-16 Annual Report and Accounts, including a draft of the annual Governance Statement:
 - internal audit plans, reports and updates from the Head of Internal Audit;
 - external audit plans and reports;
 - risk management reports and the critical examination of individual corporate risks;
 - updates on key issues and emerging risks;
 - internal control and governance arrangements, including consideration of accounting policy;
 - change programme and project updates;
 - summaries of any departures from normal procurement procedures; and
 - feedback from Committee members, officials and presenters (including the Constitutional Landscape from the Wales Governance Centre) on external matters of interest.
- 12. The Committee reviewed a series of Internal Audit reports (as listed in **appendix 2**), and considered reports on management's progress in implementing the associated recommendations.
- 13. The Committee received updates on areas highlighted in the 'forward look' section of its 2015-16 Annual Report and other key items including:
 - progress on actions and recommendations from the Wales Audit Office (WAO) 2015 Management Letter;
 - review of areas for focus outlined in the Commission's 2015-16 Governance
 Statement via updates on the Commission's corporate risks and internal audit reports;
 - priority change programmes and projects, including the transition to the Fifth Assembly and the replacement finance system;
 - risk profiling, including for political, legislative and constitutional change;
 - on-going development and use of the Commission's Assurance Framework;
 - the outcome of the Organisational Efficiency and Effectiveness Review;
 - responses to, and implementation of, Internal Audit recommendations; and
 - a thorough review of accounting policies led by the Director of Finance.

- 14. The enhanced **Corporate Performance Report**, which reflects continued high performance, is more challenging and relevant. We believe this should be extended to include change portfolio progress updates.
- 15. The Committee welcomed the new Commissioner in her role as a member of the Committee and held briefing meetings with her.
- 16. Committee members have welcomed the opportunity to extend their roles to help support the Commission's work, including:
 - assisting with the implementation of the new finance system through review of progress reports, offering advice to the project team and attendance as an observer at some project board meetings;
 - attending Remuneration Committee meetings, covered in a separate annual report.
 The Committee advises the Commission and Chief Executive, as Accounting Officer,
 on their responsibilities for appraisal and remuneration policies and systems. The
 Committee considers recommendations from the Presiding Officer concerning the
 performance of the Chief Executive and from the Chief Executive concerning
 Directors;
 - providing input and challenge to the Commission's report on Organisational Efficiency and Effectiveness;
 - providing context and background to candidates during the recruitment process for the Chief Executive and Clerk of the Assembly;
 - advising on evidence for committee scrutiny sessions on the Annual Report and
 Accounts by the Assembly's Finance Committee and its Public Accounts Committee;
 - attending a Management Board meeting to review the assurance statements provided by each Director for the Accounting Officer's Governance Statement;
 - attending the All-Wales forum for Audit Committee Chairs;
 - scrutinising project investment cases and sharing project reviews from other organisations;
 - encouraging and arranging networking opportunities with other public sector organisations, including for cyber-security; and
 - mentoring senior leaders of the Assembly Commission.
- 17. We also invited several observers to our meetings, including from the Estyn Audit and Risk Assurance Committee. We were pleased to note that several of our processes were highlighted as best practice.

Findings and Observations

Annual Report and Accounts 2015-16 and External Audit

- 18. The Committee supported the production of the 2015-16 Annual Report and Accounts, including advising on the 'using resources wisely' section, and noted that the process was efficient, effective and co-operative, and that the report was presented on schedule and in good order.
- 19. The Committee welcomed the clean and smooth audit of the 2015-16 accounts and the positive messages in the external auditor's Audit of Financial Statements Report and Management Letter. There were no material matters raised by the external auditors, and the Auditor General issued an unqualified auditor's report on the financial statements in July 2016.
- 20. The Committee appreciated the continued strong working relationship between the external auditors and Internal Audit through the 'joint working protocol'. The protocol enables the external auditors to rely on Internal Audit's work, including the review of Key Financial Controls.
- 21. Building on the successful arrangements in 2015-16, the Committee are pleased that the Commission and the external auditors have agreed to repeat the accelerated process for the 2016-17 Annual Report and Accounts, including the production of interim accounts, and that at the time of writing this has again worked well and that the 2016-17 Accounts are in good order.
- 22. The Committee will continue to work closely with the external auditors to ensure that the key financial systems and controls and the procedures supporting the accounts production process remain robust, and that audit recommendations are implemented to the required timetable.
- 23. The Commission's annual report, governance statement and use of infographics were rated highly in the external auditor's public sector benchmarking exercise.

Internal Audit

- 24. The Commission's Internal Audit service is managed by the in-house Head of Internal Audit, Gareth Watts, who is responsible for all Internal Audit outputs. We are pleased that Gareth has continued to develop the profile of Internal Audit throughout the Commission, and are encouraged by the comprehensive work undertaken in the year. Gareth is supported by external assistance, currently provided by TIAA.
- 25. We welcome the progress that has been made across all of the areas reviewed and endorse the continued focus on management implementing Internal Audit's recommendations, reports on which are reviewed by the Committee at each meeting. Management have completed all significant recommendations from previous years, and are appropriately focussed on meeting those for 2016-17. The Internal Audit Annual Opinion and Report includes details of audit ratings and the effectiveness of recommendations.
- 26. All 2016-17 audits were rated 'satisfactory' or 'strong' other than Cyber Security which was rated as 'needs improvement'. As a result of the audit, ICT has developed a detailed action

- plan which addresses the issues raised in the audit and the Commission remains on course to implement all the recommendations within the agreed timescales.
- 27. The Committee was particularly pleased to note the 'strong' rating for the Pensions Administration Audit, which follows on from 'strong' ratings given to Key Financial Controls and Budgetary Control last year. This reflects well on the concerted efforts which have gone on to maintain a strong internal financial control environment.
- 28. The Head of Internal Audit's overall opinion for 2016-17 is that "... generally adequate and effective risk management, control and governance processes were in place to manage the achievement of the Assembly Commission's strategic goals and objectives." The Committee considered the report to be a good assessment of work undertaken during the year.
- 29. That report also confirmed compliance with Public Sector Internal Audit Standards (PSIAS).

 The Committee were pleased with the results of the External Quality Assessment of Internal Audit, undertaken by the Scottish Parliament's Head of Internal Audit and Risk, and covered in detail in the Head of Internal Audit's 2016-17 Annual Report and Opinion.
- 30. The Committee is satisfied with assurances from the Head of Internal Audit that the level of resourcing committed to the Audit Programme remains sufficient.
- 31. We welcome the Head of Internal Audit's commitment to his continuing professional development and membership of professional networks, and in particular his engagement with other UK legislatures.

Risk Management

- 32. The Committee continued to monitor the effectiveness of risk management and were pleased with the quality of reports on key corporate risks. We scrutinised the identification, severity and mitigation of key risks and the effectiveness of risk management processes. The Commission undertook a thorough review and refresh of the corporate risk register during the year, together with regular horizon scanning exercises.
- 33. We undertook 'deep dive' reviews of the following corporate risks:
 - interim arrangements for financial management following the departure of the Director of Finance;
 - capacity and capability to meet demand for bilingual working;
 - capacity to deliver the new Commission strategic priorities;
 - proposals on the investigation of additional accommodation; and
 - constitutional change.
- 34. We also ensured that the Commission is appropriately focussed on general security and cyber-security risks. The Commission's ICT department have confirmed that there were no cyber-security incidents in 2016-17.
- We are satisfied with the processes in place to identify and manage key corporate risks and welcome the inclusion of the risks around physical security, cyber-security and constitutional change. Currently, the only corporate risks with a 'red' severity rating (high impact and/or likelihood) are the security risk, which reflects the current threat levels, and the risk

associated with the potential change in size of the Assembly. The Committee is able to provide assurance that these risks are being mitigated as far as possible and closely monitored.

- 36. We were assured by the satisfactory rating from the internal audit review which focussed on the management of service-level risks, and by the rapid implementation of all the recommendations.
- 37. The Committee endorsed the Commission's updated Risk Management documentation, published in January 2017.
- 38. We believe that one of the most significant risks for the coming year will be related to the impact of, and responses to political, legislative and constitutional change alongside delivering the Commission's ambitious strategic priorities.

Change Management

- 39. The Committee continues to be encouraged by the Commission's increasing professionalism in managing key programmes and projects, including the transition to the Fifth Assembly, the finance system replacement project and the Assembly digital transformation programme. That said, further improvements could be made to better monitor benefits realisation and to record and share lessons learned. The Investment and Resourcing Board continues to have an important oversight role and receives regular change programme updates from Directors.
- 40. The capacity planning process, which is now firmly established, has helped ensure that the Commission optimises its resources, taking due account of future demands for key initiatives and legislative and constitutional changes.

Information Governance

- 41. We remain assured by the level of awareness-raising activity that has been carried out across the Commission and with Assembly Members and their support staff. The Annual Report by the Senior Information Risk Owner (SIRO) further bolsters assurance and confirmed that there were no incidents or personal data losses which required reporting to the Information Commissioner's Office.
- 42. The Commission is now actively preparing for the new General Data Protection Regulation (GDPR) which is due to come into force in 2018 and we will monitor this through regular risk management updates.

Assurance Framework

43. The Commission has an 'exemplar' assurance framework which maps the operational, corporate and independent sources of assurance against corporate risks, governance arrangements and internal processes. The framework illustrates the overall strength of the Commission's sources of assurance, and highlights potential vulnerabilities. This is routinely reviewed to validate arrangements and is used to inform drafting of annual service-level assurance statements.

Forward Look

44. Whilst we recognise that further improvements have been made during the year, there are always opportunities for greater efficiency and effectiveness in the exercise and

management of governance, risk, controls and governance. As a result, we will be taking an active interest in:

- key actions, issues and recommendations emerging from the audit of the Commission's 2016-17 Annual Report and Accounts;
- management of the risk around the Assembly's response to the significant changes it faces in terms of organisational and constitutional change brought about in response to the Wales Act 2017 and the exit from the EU;
- management of the increasing physical security and cyber-security threats;
- progress with the portfolio of change projects, including the digital transformation programme and the refreshed strategy for engaging with the people of Wales. We also welcome the Commission's forthcoming review of change management principles and processes;
- the Assembly's accommodation strategy;
- the Commission delivering value for money from the 2017-18 budget;
- business continuity arrangements;
- leveraging the benefits of the new finance system;
- implementation of Internal Audit recommendations;
- developing a positive working relationship with the new Chief Executive and Clerk of the Assembly and supporting her as Accounting Officer; and
- continuing to develop the working relationships with the Assembly Commission and the Commissioner member of the Committee.
- 45. The Committee recognises that the Wales Act 2017 will mean a fundamental change in the design of the devolution settlement and that this will reflect upon the skills and understanding required of Commission staff and Members. Of particular relevance to the Commission is the devolution of powers to legislate over the Assembly's name and internal, operational and electoral arrangements, and the public perception of these changes. The Committee will continue to take an active interest in developments, the Commission's response to these changes and the management of associated risks.

Conclusion

- 46. We are satisfied that we have sufficient evidence to provide assurance to the Accounting Officer and the Commission on the effectiveness of the overall risk, control and governance environment. Indeed, overall, assurance levels within the Commission continue to be strong. The sources of assurance are also robust and reliable, as evidenced by the assurance framework and Internal Audit reviews.
- 47. The Committee thanks the Chief Executive and Clerk of the Assembly, and her staff, for the constructive and cooperative approach they have taken to the Committee's work, which has included proactively sharing key information with the Committee outside meetings. We continue to welcome the very good working relationships with Commission staff and have found them to be supportive, open and receptive to challenge.

- 48. The Committee is also grateful to the internal and external auditors for undertaking their work in a positive and collaborative manner, and to the Secretariat for again providing first class support.
- 49. Finally, we would like to record our fulsome appreciation of Claire Clancy's leadership and commitment which has been pivotal in developing the strong governance, professionalism and excellent working relationships with the Commission.
 - Eric Gregory, Chair and Independent Adviser
 - Suzy Davies AM, Commissioner
 - Keith Baldwin, Independent Adviser
 - Hugh Widdis, Independent Committee Member

Appendix 1: Assembly Commission Audit and Risk Assurance Committee Terms of Reference

The National Assembly for Wales Commission establishes the Assembly Commission Audit and Risk Assurance Committee in support of its responsibilities for issues of risk, control and governance. Its role is to review the comprehensiveness, reliability and integrity of assurances and whether they meet the Assembly Commission and the Accounting Officer's needs.

Membership

The members of the **Assembly Commission Audit and Risk Assurance Committee** ("the Committee") are:

- Suzy Davies, AM, Commissioner;
- Two Independent Advisers: Eric Gregory (Chair) and Keith Baldwin;
- One Independent Committee Member, Hugh Widdis.

Reporting

The Committee will report to the **Commission** via the **Accounting Officer** after each meeting. The minutes of the meeting are published on the Assembly website.

The Committee Chair, will attend a Commission meeting in July and present the Commission and the Accounting Officer with an Annual Report, timed to support finalisation of the accounts and the Governance Statement. The Annual Report will summarise the Committee's conclusions from the work it has done during the year.

Responsibilities

The Committee will advise the Commission and the Accounting Officer on:

- the strategic processes for risk, control and governance;
- the Governance Statement;
- the accounting policies, the accounts, and the annual report of the Commission, 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 Auditor General;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to issues identified by audit activity, including the external audit management letter from the Wales Audit Office;
- assurances relating to the management of risk and corporate governance for the Commission;
- proposals for tendering for Internal Audit services or for purchase of non-audit services from contractors who provide audit services; and
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

The Committee will periodically review its own effectiveness and report the results of that review to the Commission.

Rights

Subject to budgets agreed by the Commission, the Committee may:

- co-opt additional members for a period not exceeding one year (with the approval of the AO) to provide specialist skills, knowledge and experience;
- procure specialist ad-hoc advice, at the expense of the organisation.

Access

The Head of Internal Audit and the representative of the Wales Audit Office will have free and confidential access to the Chair of the Committee.

Meetings

The Committee will meet at least four times a year. The Chair may convene additional meetings, as necessary.

A minimum of two members of the Committee must be present for the meeting to be deemed quorate.

Committee meetings will normally be attended by the Accounting Officer, the Director of Finance, Director of Resources, the Risk and Governance Manager, the Head of Internal Audit, and a representative of the Wales Audit Office.

The Committee may ask any other officials to attend to assist it with its discussions on any particular matter.

The 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.

The Commission or the Accounting Officer may ask the Committee to convene further meetings to discuss particular issues on which they require the Committee's advice.

Information requirements

For each meeting the Committee will be provided with:

- a report summarising any significant changes to the Commission's Risk Register;
- a progress report from the Head of Internal Audit summarising:
 - work performed (and a comparison with work planned);
 - key issues emerging from Internal Audit work;
 - management's response to audit recommendations;
 - changes to the annual audit plan;
 - resourcing issues affecting the delivery of Internal Audit's plan;
- a progress report from the Wales Audit Office representative summarising work done and emerging findings;

- management assurance reports; and
- reports on the management of major incidents, "near misses", and lessons learned.

As and when appropriate the Committee will be provided with:

- proposals for the terms of reference of internal audit / the internal audit charter;
- the internal audit strategy;
- the Head of Internal Audit's Annual Opinion and Report;
- quality assurance reports on the internal audit function;
- the Wales Audit Office annual Audit Strategy;
- the Wales Audit Office ISA 260 report to those charged with governance;
- the draft accounts of the Commission;
- the draft Governance Statement;
- Senior Information Risk Owner (SIRO) Annual Report;
- a report on any changes to accounting policies;
- the Wales Audit Office management letter;
- a report on any proposals to tender for audit functions;
- a report on co-operation between internal and external audit;
- the Commission's Risk Management Strategy;
- details of key change programme/project portfolio management; and
- departure summaries.

Appendix 2: Internal Audit reviews considered by the Committee during the year

June 2016

Fraud

November 2016

- Pensions Administration
- Cyber Security
- Voluntary Exit Scheme Assurance review
- Procurement
- Risk Management

February 2017

- Monitoring recommendations made in 2016
- Cyber Security

March 2017

- Data Analytics (Payroll)
- Project Management