

**National Assembly for Wales**  
Assembly Commission Audit Committee

**Annual Report to the National  
Assembly for Wales Commission  
for the year ended 31 March 2013**

July 2013



Cynulliad  
Cenedlaethol  
Cymru

National  
Assembly for  
Wales

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# Assembly Commission Audit Committee

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## Annual Report to the National Assembly for Wales Commission for the year ended 31 March 2013

### Introduction

1. The Assembly Commission Audit Committee is pleased to present this report on its work for the year ended 31 March 2013, the second year of the Fourth Assembly. Throughout the year, we have continued to emphasise the importance of good governance and risk control within the Commission and have strived to deliver high standards, efficiency and value for money in every aspect of its work.

### Role of the Committee

2. The Committee acts in an advisory capacity and has no executive powers. Its Terms of Reference (Annex A), which were agreed in November 2012, are derived from those agreed on 20 June 2007 for the National Assembly for Wales Commission's Corporate Governance Committee. They are consistent with Treasury guidance and are reviewed by the Committee from time to time. The Terms of Reference for the Audit Committee say:

*The Committee will provide 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.*

3. The role of the Committee is to provide advice, challenge and support to the Chief Executive and Clerk of the Assembly in respect of her Accounting Officer responsibilities, as well as providing assurance to the Assembly Commission. These responsibilities include a requirement to ensure that public money is spent in a regular and proper manner and that value for money is secured in the use of resources. The Accounting Officer is also required to ensure that sound corporate governance arrangements are in place and that effective internal controls are operating to ensure that risks are properly identified and managed.

4. In fulfilling its role, the Committee examines and provides assurance on:
  - the annual report and accounts;
  - the planned activity and results of internal and external audit;
  - the adequacy of the management response to issues identified by internal and external audit;
  - the Commission's corporate governance and risk management arrangements including the annual Governance Statement; and
  - counter-fraud policies, whistle-blowing processes, and arrangements for special investigations.

### **Committee membership**

5. During 2012-13, the membership of the Committee was:

Richard Calvert (Chair and Independent Adviser)  
Keith Baldwin (Independent Adviser) (from November 2012)  
Angela Burns AM/AC, Commissioner  
Eric Gregory (Independent Adviser) (from November 2012)  
Tim Knighton (Independent Adviser) (until November 2012)  
Professor Robert Pickard (Independent Adviser) (until November 2012)

6. The Committee would like to record its thanks to Tim Knighton and Robert Pickard for the valuable contributions they made to the work of the Committee in the period from November 2007 to November 2012 when they were independent advisers to the Assembly.

7. The following also regularly attended Committee meetings:

Claire Clancy - Chief Executive and Clerk of the Assembly  
Steve O'Donoghue - Head of Assembly Resources and Director of Finance  
Nicola Callow - Head of Finance  
Lynne Flux - Head of Internal Audit  
Richard Harries - Wales Audit Office  
Mark Jones - Wales Audit Office  
John Grimes - Clerk to the Audit Committee

8. During the year meetings were also attended by other Assembly officials and representatives from external organisations, including auditors, as required.
9. In addition to the usual meetings, the Committee held an informal meeting with the Commission's external auditors to review progress and discuss any issues outside the context of formal meetings.

### **Committee activity and considerations**

10. The Committee met five times during the year and its activity was guided by its forward work programme. Regular agenda items included:
  - Internal audit plans and reports;
  - Annual Report and Accounts including a draft of the Governance Statement for 2012-13;
  - External audit plans and reports;
  - Consideration of risk management reports and periodic discussion of key risks;
  - Governance and internal control arrangements;
  - Updates on key issues.
11. In addition, the Committee also considered:
  - Updates on progress with the implementation of recommendations from Internal Audit Report;
  - Progress on key projects being undertaken during the year and, in particular, the project to develop a new HR and Payroll system and the project to develop and implement a new ICT infrastructure for the Commission;
  - An update from the Assembly Commission's Head of Procurement on the work he was doing to develop and strengthen procurement processes within the Assembly;
  - An update on the Assembly Commission's Value for Money programme;
  - An update on the Commission's financial position in 2012-13 and its budget for 2013-14.

### **Committee findings and observations**

12. The Committee's key findings and observations are shown below.

## External Audit and Annual Accounts

13. The Committee very much welcomed the observations of the auditors, in the Management Letter, that in all material respects the Commission's 2011-12 financial statements were properly prepared and that the significant financial systems did not contain material weaknesses. It welcomed the conclusion that the Commission operated an effective system of controls. The Committee noted that officials had continued to maintain their high standard in the preparation of the Commission's accounts which continued the improvement made over the past three years. The Committee also noted the continued effective cooperation between the Wales Audit Office and Commission officials.

## Governance Statement

14. The Committee noted the auditors' observation that in preparing the new Governance Statement for 2011-12, which had replaced the Statement on Internal Control, Commission officials had considered and addressed the changes very effectively. It noted that the process for preparing the Governance Statement had been robust and had been applied in good time. The Committee noted also that further development was planned for 2012-13.

## Internal Audit

15. Internal audit provides one of the key resources for the Committee's work. Following concerns in earlier years about the quality and rigour of internal audit arrangements, a new contract was awarded in 2010-11 to KPMG for the provision of internal audit services. The service is managed by the in-house Head of Internal Audit who takes responsibility for all audit outputs. This arrangement has now been in operation for three years and the Committee considers it has worked very well and significantly increased the level of internal audit and scrutiny of working practices within the Assembly.
16. The Audit Plan enabled reports to be considered evenly through 2012-13. The reviews considered by the Committee during the year were:
  - Future ICT Service Governance Review



- Business Continuity Planning Review
  - HR and Payroll integrated project review.
17. A rolling programme of follow-up reviews on the progress of implementing recommendations was established for 2012-13. During the year the Committee considered updates on the following internal audit reports completed in previous years:
- Procurement and Contract management - February 2011
  - Core Financial Controls - April 2011
  - Payroll - May 2011
  - Risk management - May 2011
  - Members' expenses - November 2011
  - Fraud risk management - November 2011
  - Recruitment of independent and specialist advisers - February 2012
  - Asset management - April 2012
  - Budgetary control and financial management processes - April 2012
  - Business Continuity planning - October 2012
18. The Committee welcomes the progress that has been made across all of these areas. The Committee endorses the maintenance of the follow up programme to ensure momentum is maintained in these key areas across the organisation.
19. The Committee acknowledged the very substantial amount of work that had gone into this programme and the wide-ranging coverage of these investigations. We were satisfied with assurances from the Head of Internal Audit that the level of resourcing committed to the Audit Programme was sufficient and welcomed the relationship that had been established with KPMG.
20. During the year the Committee continued to take a close interest in the Commission's improvement strategy for **procurement and contract management** and the progress made since the appointment in November 2011 of a new Head of Procurement. The Committee received an update at its meeting in February

2013 and was reassured that significant improvements in this area were beginning to be delivered.

21. The Committee welcomed the positive assurance provided by the Internal Audit follow up reports. The Committee is satisfied that recommended action to further improve the processes is underway.
22. The progress reviews of the two key infrastructure projects highlighted both good practice and lessons to be learned in moving to the second phases of the projects. The Committee received assurance on progress from the Senior Managers running the projects. The Committee will keep these in view through the 2013-14 Audit Programme.
23. The Committee welcomed the renewed emphasis on establishing sound Business Continuity Planning in the organisation. The Committee will continue to monitor progress in this area closely.

#### Risk Management

24. In fulfilling its role of maintaining an overview of risk management within the organisation, the Committee considered the Commission's (new) register of corporate risks which had been introduced as part of the process of simplifying and streamlining risk management in the Assembly. The Committee welcomed the improvements in the new approach which highlighted very clearly the key issues on which the Commission needs to focus its risk management. It looks forward to seeing the approach bed-in during the coming year.
25. The Committee noted the risks highlighted through the Commission's Corporate Risk Register. It is satisfied that these are generally being managed appropriately. It considers that the most significant risks for the coming year will be those related to the development of the Commission's ICT future services. In particular it notes the significant risks associated with implementing a new HR-payroll system at the same time as making the transition to new ICT service delivery arrangements.

## Forward Look

26. The Committee has an agreed work programme for 2013-14. In addition to the regular items, the Committee will also be taking an active interest in the continued development of Business Continuity, Information Security and Data Protection governance, ICT Future Services and the Value for Money programme.
27. The Committee noted the budget that had been allocated to the Commission for 2012-13 to enable it to provide the outstanding parliamentary service necessary for the Assembly and to meet the expectations of Assembly Members. During the year the Committee received a progress report on the Commission's Value for Money programme and will continue to take a close interest in the Commission's achievement of value for money within its allocated budget over the year ahead.
28. The Committee is satisfied that it has 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 are strong. Nonetheless, while we recognise the improvements that have been made during the year, there are still areas for greater efficiency and effectiveness in the exercise and management of controls. We will continue to pay particular attention to these areas in 2013-14.
29. A particular concern arises because of the need to appoint a new Head of Internal Audit and the renewal of the support of the contract (currently with KPMG). Clearly it must be a high priority to ensure these do not cause any delay or diminution in the internal audit work carried out in the Commission and this will be a high priority for the Committee in the coming year. Our work programme will be reviewed in the light of any other priorities emerging during the course of the year.
30. 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. The Committee is also grateful to the internal and external auditors for undertaking their work in a positive and helpful manner and to the Secretariat for supporting the operation of the Committee.

It also wishes to thank Lynne Flux for her excellent work as Head of Internal Audit.

**Richard Calvert, Chair and Independent Adviser**  
**Keith Baldwin, Independent Adviser**  
**Angela Burns, AM/AC, Commissioner**  
**Eric Gregory, Independent Adviser**

# Annex 1

## Audit Committee - Terms of Reference

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- 1. The National Assembly for Wales Commission establishes the Assembly Commission Audit 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

2. The members of the Assembly Commission Audit Committee will comprise:
  - ~ One Commissioner; and
  - ~ Three independent non-executive advisers – one of whom will be the Chair.

### REPORTING

3. The Committee will formally report in writing to the Commission and the Accounting Officer after each meeting.
4. The Committee will provide 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

5. The Committee will advise the Commission and the Accounting Officer on:
  - ~ the processes for strategic risk control and governance and 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 corporate governance requirements 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.

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

## **RIGHTS**

7. The Committee may:

- ~ co-opt additional members for a period not exceeding one year to provide specialist skills, knowledge and experience;
- ~ procure specialist ad-hoc advice, at the expense of the organisation, subject to budgets agreed by the Commission.

## **ACCESS**

8. 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**

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

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

11. Committee meetings will normally be attended by the Accounting Officer, the Director of Finance, the Head of Internal Audit, and a representative of the Wales Audit Office.
12. The Committee may ask any other officials to attend to assist it with its discussions on any particular matter.
13. 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.
14. The Commission or the Accounting Officer may ask the Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

## **INFORMATION REQUIREMENTS**

15. For each meeting the Audit 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.
16. As and when appropriate the Committee will be provided with:
  - ~ proposals for the terms of reference of Internal Audit;
  - ~ 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 ;
  - ~ a report on any changes to accounting policies;
  - ~ the Wales Audit Office management letter;
  - ~ a report on any proposals to tender for audit functions; and
  - ~ a report on co-operation between internal and external audit.
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