

Audit and Risk Assurance Committee: Annual Report 2017-18

June 2018



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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 2018, the second year of the Fifth Assembly.
2. Manon Antoniazzi took up post as Chief Executive and Clerk of the Assembly and Accounting Officer on 24 April 2017, and we have quickly developed a close and productive working relationship with her.
3. 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 2018-19; and our overall conclusions.
4. 2017-18 has been a year of both significant achievement and challenge for the Commission, including: preparing for the transition to the Wales Act 2017 and the new devolved powers; the programme of Assembly reform; digital transformation; consideration of the Assembly's future accommodation requirements; the Capacity Review requested by the Commission; and preparations for the exit from the European Union (EU). There has also been close scrutiny of the Commission's budget and resources by the Assembly's Finance and Public Accounts Committees.

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, one of whom is the Chair, and an Independent Committee Member) is published on the Commission's website. The following also regularly attended Committee meetings during the year:

- Manon Antoniazzi – 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 / Head of Governance and Assurance;
- Ann-Marie Harkin – Engagement Lead, Wales Audit Office;
- Matthew Coe – Audit Manager, Wales Audit Office (April to November);
- Gareth Lucey – Audit Manager, Wales Audit Office (November to March);
- Kathryn Hughes – Risk and Governance Manager; Committee Clerk; and
- Buddug Saer – Deputy Committee Clerk.
- Other Assembly Commission officials also attended meetings as required.

8. The Committee held private meetings with the external and internal auditors, and the Chief Executive and Clerk of the Assembly to ensure that relationships remain effective.

9. The Committee reports to the Commission via the Commissioner 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 before the end of the summer term.

Activity and Considerations

10. The Committee met four times during the year, with activity guided by its forward work programme. Standard agenda items included:

- the 2016-17 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 and officials on external matters of interest.

11. 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.

12. The Committee received updates on areas highlighted in the 'forward look' section of its 2016-17 Annual Report and other key items including:

- areas of focus outlined in the Commission's 2016-17 Governance Statement via consideration of the Commission's corporate risks, financial management, major projects and internal audit reports;
- risk profiling and mitigation, including for political; legislative and constitutional change; cyber-security and the General Data Protection Regulation (GDPR);

- project management and implementation of the replacement finance system in April 2017;
- regular financial position updates, including progress against the delivery of the value for money target;
- responses to, and implementation of, Internal Audit recommendations; and
- the Capacity Review.

13. The **Corporate Performance Report** reflects continued high achievement, with the vast majority of Key Performance Indicators (KPIs) rated 'green'. Quarterly updates on the progress of change programmes and projects are now reviewed by the Commission's Executive Board following the Chief Executive's governance review, although not yet formally reflected in the Corporate Performance Report.

14. Committee members also support the Commission's strategic considerations including regarding performance, transformation, service delivery and governance. This has included:

- advising and providing challenge during the course of the Capacity Review project;
- attending **Remuneration Committee** meetings, advising the Commission and Chief Executive, as Accounting Officer, on their responsibilities for appraisal and remuneration policies and systems, including pay strategy and negotiations. The Committee considers recommendations from the Presiding Officer concerning the performance of the Chief Executive and from the Chief Executive concerning Directors;
- advising on the new emerging senior team and board structures and responsibilities;
- membership of the pre-sift panel for the recruitment of the Auditor General for Wales;
- 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 senior management team meeting to scrutinise and challenge the assurance statements provided by each Director for the Accounting Officer's Governance Statement;
- attending the All-Wales forum for Audit Committee Chairs and the TIAA Audit Conference;
- external advice and assurance for the Finance System Replacement project;
- encouraging and arranging networking opportunities with other public sector organisations, including for cyber-security and the Capacity Review; and
- recruitment of new Independent Advisers.

Findings and Observations

Annual Report and Accounts 2016-17 and External Audit

15. The Committee supported the production of the 2016-17 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.

16. The Committee welcomed early presentation of the Financial Statements Report (ISA260) and Management Letter. This was a clean and straightforward audit with a high-quality set of accounts. There were no material matters raised by the external auditors, and the Auditor General for Wales issued an unqualified auditor's report on the financial statements in July 2017. The issue concerning payment of the Auditor General for Wales' salary was satisfactorily resolved and reflected in a note to the financial statement.

17. 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.

18. Building on the successful arrangements of previous years, the Committee are pleased that the Commission and the external auditors have agreed to repeat the accelerated process for the 2017-18 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 2017-18 Accounts are in good order.

19. 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. The reduction (of 8%) in the 2016-17 WAO fee reflects the Commission's competence in managing the accounting process.

Internal Audit

- 20.** 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. Gareth is supported by external assistance, currently provided by TIAA.
- 21.** At the Commission's request, Gareth and other members of the Governance team have been assisting the Chief Executive with the Capacity Review, to ascertain the most effective and efficient deployment of resources to deliver the Commission's objectives for the Fifth Assembly and beyond. Gareth has balanced his extended workload well, but this has meant that some Internal Audit reports have been delayed.
- 22.** We welcome the progress that has been made across all 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 2017-18. The Internal Audit Annual Opinion and Report includes details of audit ratings and the effectiveness of recommendations.
- 23.** The audit on the *New Finance System Controls* received a disappointing 'Limited Assurance' rating, the previous rating having been 'strong', but that said, all recommendations have been actioned rapidly. The review of AM Allowances received a Satisfactory rating. All other audits undertaken during the year were either follow-up or advisory audits, and therefore no rating was given, and no significant issues emerged.
- 24.** No cases of actual or suspected fraudulent activity were brought to the attention of Internal Audit in 2017-18. There were also no internal whistleblowing disclosures.
- 25.** The Head of Internal Audit's overall opinion for 2017-18 is that "...the framework of governance, risk management and control is adequate and effective." The Committee considered the report to be a good assessment of work undertaken during the year.
- 26.** 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 2017-18 Annual Report and Opinion.

27. The Committee is satisfied with assurances from the Head of Internal Audit that the level of resourcing committed to the Audit Programme remains sufficient.

28. We welcome the Head of Internal Audit's commitment to his continuing professional development and membership of professional networks, and in particular his close ongoing engagement with other UK legislatures.

Risk Management

29. 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.

30. We undertook 'deep dive' reviews of the following corporate risks:

- our preparedness for the GDPR; and
- managing the Commission's inter-related Corporate Risks which included Constitutional Change, Commission budget strategy, corporate capacity and future accommodation requirements.

31. We also ensured that the Commission is appropriately focussed on general security and cyber-security risks, including raising awareness with Assembly Members and their supporting staff at constituency offices. The Commission's ICT department have confirmed that there were no cyber-security incidents that resulted in data breaches in 2017-18.

32. We are satisfied with the processes in place to identify and manage key corporate risks and support the inclusion of the risks around physical security, cyber-security, GDPR, budget constraints and constitutional change. There are eight corporate risks with a 'red' severity rating, with the highest of these being the risk associated with the potential change in the size of the Assembly. Whilst we recognise that the Commission has limited opportunity to dilute the impact of these risks and is monitoring and mitigating these as far as possible, the Committee would encourage continuing vigilance here, particularly as several of these risks are inter-related.

33. 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.

34. We believe that one of the most significant risks will continue to be that concerning the impact of, and responses to, political, legislative and constitutional change alongside delivering the Commission's ambitious strategic priorities.

Change Management

35. The Commission's change management processes continue to mature, and we were pleased to see a thorough post-implementation review of the Finance System Replacement project and the increasing use of 'agile' development processes. The Executive Board has an important oversight role and receives quarterly change programme updates from Directors.

36. The work on digital transformation is underpinned by an agile approach to delivery of projects, a new approach to user research, and the change, communications and engagement framework and plan.

37. The Record of Proceedings has been improved to make it easier to use and more effective and efficient for people to search for, share and re-use the information with access via a new self-service portal. Together with other MySenedd developments, this has resulted in the Assembly being short-listed for the Wales Digital Awards 2018.

38. The Capacity Review has catalysed plans to better integrate capacity, financial and service planning processes. The Committee has long encouraged the Commission to introduce a robust change portfolio prioritisation process, which is particularly important at a time of increasing demand for change coupled with constrained resources and finance. We are pleased to see that this is being developed, taking due account of the strategic fit, impact/benefits and deliverability of candidate change initiatives.

Information Governance

39. 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 that information risks are being managed effectively. There was one personal data loss incident which required reporting to the Information Commissioner's Office (ICO). The ICO decided against further action as the case did not meet their Data Protection Regulatory Action Policy criteria.

40. The Commission is well-positioned to deliver the majority of the requirements for GDPR, which comes into effect in May 2018. We will continue to monitor this via regular risk management updates.

Assurance Framework

41. 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.

Committee Effectiveness Review

42. The Committee conducted its biennial effectiveness survey, coordinated by the Committee Clerks. This involved Committee members, external representatives and Assembly officials anonymously completing a detailed tailored questionnaire. The results were encouragingly positive throughout, highlighting the strong and effective working relationships of all concerned. The sole action resulting from the survey was to expand our July meeting agenda, when we traditionally only consider finalisation of the accounts.

Forward Look

43. 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 and controls. As a result, we will be taking an active interest in:

- any key actions, issues and recommendations emerging from the audit of the Commission's 2017-18 Annual Report and Accounts;

- changes to the Commission's senior management and governance board structures;
- 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;
- implementation of the Capacity Review recommendations, including the new change portfolio prioritisation mechanism;
- implementation of and compliance with GDPR;
- countering the increasing physical security and cyber-security threats, including via a detailed assessment of potential vulnerabilities and robust and tested response plans;
- progress with the portfolio of change projects, including the digital transformation programme and the refreshed strategy for engaging with the people of Wales;
- any revised budgeting processes, and the Finance and Public Accounts Committee's scrutiny of these, including regarding the Determination Budget;
- the Assembly/Welsh Government's accommodation strategy;
- the Commission delivering value for money from the 2018-19 budget;
- implementation of Internal Audit recommendations;
- continuing to develop working relationships with the Assembly Commission and the Commissioner member of the Committee; and
- effecting a smooth induction process and handover to the new Independent Advisers.

44. 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

45. 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 external audit of accounts, the assurance framework and Internal Audit reviews.

46. 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.

47. 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.

48. Eric Gregory and Keith Baldwin will conclude their tenure as Independent Advisers in 2018/19. We would both like to record how much we have enjoyed working with the Commission, which we have found to be a committed, dynamic and professional organisation, rightly proud of its ethics, values and behaviours. We wish you every success in the future.

- 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; and
- 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 2017

- AM Allowances (formal audit)
- EU GDPR Project Plan Gap Analysis (advisory audit)
- Review of the Investment and Resourcing Board (advisory)
- Opening Balances Review (formal on transfer of data to the new Finance system)

November 2017

- New Finance System Controls (formal audit)
- Committee Integrated Teams (formal audit but no overall assurance opinion)
- Internal Audit Recommendations – Members Business Support - Follow up report