

National Assembly for Wales
Assembly Commission
Audit and Risk Assurance Committee

**Annual Report to the National
Assembly for Wales Commission for the
year ended 31 March 2015**

June 2015

Cynulliad
Cenedlaethol
Cymru

National
Assembly for
Wales



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Contents

Section 01. Annual Report to the National Assembly for Wales Commission for the year ended 31 March 2015	1
Section 02. Appendix 1	10
Section 03. Appendix 2.....	13



Section 01.

Annual Report to the National Assembly for Wales Commission for the year ended 31 March 2015

Introduction

- 01.01.** The Assembly Commission Audit and Risk Assurance Committee is pleased to present this report on its work for the year ended 31 March 2015, the fourth year of the Fourth Assembly.
- 01.02.** The report focuses on the adequacy of the Commission's governance arrangements, risk management, internal control and assurance framework. The report highlights: the remit of the Committee; the work undertaken and associated findings and recommendations; the Committee's proposed focus for 2015/16; and our overall conclusions.

Role of the Committee

- 01.03.** The Committee supports the Commission and the Accounting Officer with regard to their responsibilities for audit, corporate governance, risk, internal control, assurance, regularity and propriety.
- 01.04.** The Committee acts in an advisory capacity and has no executive powers. The Committee's Terms of Reference (**appendix 1**) and **forward work programme** are produced in accordance with HM Treasury guidance.
- 01.05.** The Committee's **current membership** (an Assembly Commissioner, two Independent Advisers and an Independent Committee Member) is published on the Commission's website and was unchanged during the year. The following also regularly attended Committee meetings, with the Wales Audit Office (WAO) representatives changing in line with ethical standards and the WAO's rotation policies:
- Claire Clancy – Chief Executive and Clerk of the Assembly
 - Nicola Callow – Director of Finance
 - Dave Tosh – Director of Resources
 - Gareth Watts – Head of Internal Audit
 - Ann-Marie Harkin (replacing Richard Harries) – Wales Audit Office
 - Matthew Coe (replacing Mark Jones) – Wales Audit Office
 - Kathryn Hughes – Risk & Governance Manager; Committee Clerk
- 01.06.** Other Assembly Commission officials also attended meetings as required.
- 01.07.** The Committee held informal 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.
- 01.08.** The Committee reports to the Commission via the Accounting Officer after each meeting, and publishes its meeting minutes on the Assembly website.

Activity and Considerations

01.09. The Committee met five times during the year, with activity guided by its forward work programme. Regular agenda items included:

- the 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 key corporate risks
- internal control and governance arrangements
- change programme and project updates
- summaries of any departures from normal procurement procedures
- updates on key issues

01.10. The Committee reviewed a series of Internal Audit reports (**appendix 2**), with a sharp focus on management's progress in implementing the associated recommendations, together with those outstanding from earlier reports.

01.11. The Committee received updates on areas highlighted in the 'forward look' section of its 2013-14 Annual Report and other key items including:

- the Commission's 2013-14 Annual Reports and Accounts and Governance Statement
- WAO Management Letter 2013-14 recommendations
- the framework for managing change programmes
- the ICT Transformation and HR/Payroll projects
- Capacity and workforce planning
- Contingency planning and disaster recovery arrangements
- the Assurance Framework, which summarises the effectiveness of operational, corporate and independent lines of defence
- Accounting policies
- Information Governance Framework
- the Commission's Fraud Response Plan and Whistleblowing policy, which we endorsed

01.12. Committee members have welcomed the opportunity to extend their roles to help support the Commission's work, including:

- attending Management Board meetings, and reviewing the assurance statements provided by each senior member for the Accounting Officer's Governance Statement
- attending an Investment and Resourcing Board meeting, advising on the approach to programme and project management and scrutinising the HR/Payroll phase 2 arrangements

- advising on the potential replacement of the Coda Finance system
- attending Remuneration Committee meetings
- developing the Assembly Commission’s Assurance Framework
- arranging a visit for Commission officials to the Northern Ireland Assembly
- arranging a programme management presentation by the Programme Director of the Individual Electoral Registration programme. This was also attended by one of the Assembly Commissioners and the Deputy Presiding Officer



Findings and Observations

Annual Report and Accounts

01.13. The Committee noted that the Annual Report and Accounts process was conducted in an efficient, effective and co-operative manner despite some resourcing challenges, and that the report was well presented.

External Audit

01.14. The Committee welcomed the positive messages in the external auditor's Management Letter, which concluded that, 'the Commission's significant financial systems can be relied upon to produce materially correct outputs' and that 'arrangements underpinning the Annual Governance Statement continued to develop and strengthen'.

01.15. The Management Letter did, however, highlight weaknesses regarding changes to supplier bank accounts, where a fraudulent payment had been made, and governance and control of phase 1 of the HR/Payroll project. The fraud was quickly notified to the Police and security services, the Commissioners and other key stakeholders in line with the Fraud Response Plan. The incident was confirmed as an isolated one, and supplier data verification and control routines were strengthened. The Commission has also bolstered business change programme management processes and due diligence, in part as a response to Internal Audit's detailed report on HR/payroll phase 1.

01.16. The Committee are pleased to note the positive and comprehensive management responses that have been implemented, with all the recommendations in the Management Letter having been actioned.

01.17. The Committee appreciated the formalisation of a 'joint working protocol' between the WAO and Internal Audit and the evidence that a strong working relationship existed, and encouraged this to continue.

01.18. 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 arising from the previous year's audit have been implemented in accordance with the required timetable.

Internal Audit

01.19. The Commission's Internal Audit service is managed by the in-house Head of Internal Audit, Gareth Watts, who is responsible for all audit outputs. We are pleased that Gareth has raised the profile of Internal Audit throughout the Commission and are encouraged by the comprehensive work undertaken in the year.

01.20. We welcome the progress that has been made across all of the areas reviewed and endorse the sharp 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 2014-15. The Internal Audit Annual Opinion and Report will include details of audit ratings and the effectiveness of recommendations.

- 01.21.** The majority of 2014-15 audits were rated 'satisfactory' or 'strong', and when concerns were identified (recruitment processes, security vetting, legislative work bench and HR/Payroll phase 1) management have or are taking swift action. The Committee also provided feedback to officials on the Commission's Fraud Response Plan and asset accounting policies following Internal Audit reviews.
- 01.22.** We are satisfied with assurances from the Head of Internal Audit that the level of resourcing committed to the Audit Programme is sufficient and welcomed the productive and robust working relationship that has been developed with the internal audit service providers TIAA.
- 01.23.** The Head of Internal Audit confirmed compliance with Public Sector Internal Audit Standards (PSIAS) in his Annual Report, which he presented to the Committee in June 2014. We were pleased to observe continued conformance.
- 01.24.** We also 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.
- 01.25.** Internal Audit's 2013-14 Annual Report and Opinion stated that '*...the Assembly Commission has adequate and effective risk management, control and governance processes to manage the achievement of its objectives.*' A similar opinion is anticipated for 2014-15.

Risk Management

- 01.26.** 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, and suggested some improvements in this area.
- 01.27.** We were pleased to receive a 'strong' opinion audit report on the controls around risk management, and we are satisfied with the processes in place to identify and manage key corporate risks. Indeed, currently, there are no corporate risks with a 'red' severity rating.
- 01.28.** We believe that one of the most significant risks for the coming year will be related to the impact of, and responses to, constitutional change. We would encourage the Commission to undertake a refresh exercise to review all corporate and static risks to ensure that those associated with its future business and strategic plans are properly reflected.

Change Portfolio Management

- 01.29.** The Committee is encouraged by the Commission's increasing professionalism in managing key programmes and projects, and would highlight the ICT Transformation programme as an exemplar here. The Investment and Resourcing Board now has an important oversight role, and there has been substantial due diligence in initiating the HR/Payroll phase 2 project.
- 01.30.** The capacity and workforce planning initiative will help ensure that the Commission optimises its resources, taking due account of future demands for key initiatives and legislative and constitutional changes.

Assurance Framework

01.31. The Committee welcomed this excellent piece of work, its links with corporate risks and the gap analysis of potential vulnerabilities. The framework illustrated the overall strength of the Commission's sources of assurance. We encouraged officials to include external co-operation and peer reviews as assurance sources, and to routinely review the framework in order to validate arrangements and bolster the few 'amber' assurance sources.

Committee Effectiveness Review

01.32. During the year, the WAO facilitated a survey to assess the effectiveness of the Committee, which involved Committee members, external representatives and Assembly officials completing a detailed tailored questionnaire. The overall results were very encouraging, and we have completed all the development actions which we agreed including heightening engagement with the Assembly Commission, the Management Board, officials and external organisations.

Forward Look

01.33. 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, the Committee will be taking an active interest in:

- key actions, issues and recommendations emerging from the Commission's 2014-15 Annual Report and Accounts, the WAO's Management Letter and the Governance Statement
- preparations for the Fifth Assembly and potential future legislative and constitutional change, and associated risk and scenario planning
- the continued development of the Commission's approach to strategic planning, change portfolio management, benefits realisation and capacity and workforce planning
- the progress with and implementation of the Commission's priority change programmes including HR/Payroll phase 2 and the potential replacement of the Coda Finance system
- developing closer relationships with the Commissioners and the Assembly's Business Directorate
- the completion of the business continuity testing work, where a major exercise is scheduled for April 2015
- management's actioning of Internal Audit recommendations, particularly when concerns have been identified
- continuing to encourage and facilitate contact with external organisations in order to share best practice

01.34. We noted the Commission's 2015-16 budget and will continue to take a close interest in the Commission delivering value for money within this.

Conclusion

- 01.35.** 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 generally strong. The sources of assurance are also robust and reliable, as evidenced by the assurance framework analysis.
- 01.36.** 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. As a team, we have found them to be supportive, open and receptive to challenge.
- 01.37.** 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.
- 01.38.** Finally, we would like to welcome David Melding AM, Deputy Presiding Officer, to the Committee as the temporary replacement for Angela Burns AM. We wish Angela a speedy recovery and look forward to working together with her again soon.
- **Eric Gregory, Chair and Independent Adviser**
 - **Keith Baldwin, Independent Adviser**
 - **Angela Burns, AM/AC, Commissioner**
 - **Hugh Widdis, Independent Committee Member**



15:27

Section 02.

Appendix 1

Pwyllgor Archwilio a Sicrwydd Risg Comisiwn y Cynulliad Assembly Commission Audit & 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

02.01. The members of the Assembly Commission Audit and Risk Assurance Committee are:

- David Melding, AM, Deputy Presiding Officer;
- Two Independent Advisers: Eric Gregory (Chair) and Keith Baldwin;
- Hugh Widdis, an Independent Committee Member.

Reporting

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

02.03. 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

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

- the assurance framework and 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.

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

Rights

02.06. 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

02.07. 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

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

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

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

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

02.12. 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.

02.13. 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

02.14. 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;
- management assurance reports; and
- reports on the management of major incidents, “near misses”, and lessons learned.

02.15. 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;
- 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.

Section 03.

Appendix 2

03.01. The Internal Audit reviews considered by the Committee during the year were:

- Corporate Improvement – April 2014
- Data Analytics – April 2014
- ICT Readiness (for exit from the ICT contract) – April 2014
- Payroll - Data Migration – June 2014
- Risk Management – July 2014
- Information Governance - July 2014
- Equality and Diversity – August 2014
- Fixed Asset Management – November 2014
- Recruitment – November 2014
- HR and Payroll project review – June and November 2014
- Security Vetting – February 2015
- Payroll – February 2015
- Legislative Work Bench – February 2015
- A series of follow up reports of audits from previous years throughout the year.