



## **Assembly Commission Audit Committee**

### **Annual Report to the National Assembly for Wales Commission for the year ended 31 March 2010**

#### **1. Introduction and role of the Committee**

The Assembly Commission Audit Committee is pleased to present this report on its work for the year ended 31 March 2010.

The role of the Committee is to provide advice, challenge and assurance to the Chief Executive in respect of her Accounting Officer responsibilities. These responsibilities include the requirement to ensure that public money is expended 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.

As such, the Committee examines and provides assurance to the Commission and Accounting Officer on:

- the annual report and accounts;
- the planned activity and results of internal and external audit;
- adequacy of management response to issues identified by internal and external audit;
- the Commission's corporate governance and risk management arrangements including the annual Statement on Internal Control; and
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

#### **2. Terms of reference**



The Committee acts in an advisory capacity and has no executive powers. Its terms as set by the Commission are consistent with Treasury guidance and are reviewed by the Committee from time to time. A copy is reproduced at Annex A.

### **3. Committee membership and attendees**

Membership of the Committee was unchanged during the year and comprised:

Richard Calvert (Chair)

Tim Knighton

Professor Robert Pickard

William Graham AM

Regular attendees at Committee meetings were the Chief Executive in her Capacity as Principal Accounting Officer, key Assembly staff and representatives of internal and external audit. Secretariat services are provided by the Assembly's Corporate Unit.

In November 2009, the Assembly Commission agreed to change the name of the Corporate Governance Committee to the Assembly Commission Audit Committee. This change had been recommended by the Independent Review Panel on support for Assembly Members in its report "Getting it Right for Wales".

### **4. Committee activity, considerations and observations**

The Committee met five times during the year. Regular agenda items consisted of:

- Internal audit reports and plans
- Annual Report and Accounts
- External audit matters
- Changes to the risk register



- Governance and internal control arrangements;
- Update on key issues.

In addition, the Committee also considered:

- IT and information security
- Business continuity planning
- Arrangements for the provision of internal audit services
- The Commission's budget for 2010-11
- Impact of the Independent Review Panel's report "Getting it right for Wales"

The Committee's key considerations and observations emerging from the five meetings were:

**Annual Accounts** –the draft accounts for 2008–09 were submitted for audit in line with the agreed timetable and received an unqualified audit opinion. The matters raised by the WAO in its interim management letter for that year had given cause for concern but the Committee were reassured that these had been substantially addressed by the time of the final audit. One of the factors in successfully meeting the timetable was the ability to “front load” much of the accounts preparation work.

The Commission is also required to produce its accounts for 2009–10 in line with International Financial Reporting Standards (IFRS). Part of this work involved restating and representing the 2008–09 comparative figures in line with the new Standards for audit by the WAO. The WAO initially reported their concerns that there was no evidence of a proper plan for completing this work. This was of concern to the Committee but subsequently the comparative information has been prepared and audited and the WAO has confirmed that there are no issues that would affect the Auditor General's opinion on the 2009–10 accounts.



**Information Security** – The issue of information was given greater prominence as a result of a number of lapses in the public sector during 2009. The Committee were pleased to note that the Commission had agreed to implement the best practice promulgated in the Cabinet Office Security Policy Framework and were encouraged by the action taken to raise awareness including the inclusion of this subject within the programme of governance “Hot Shot” Sessions.

**Business Continuity Planning** – The Committee considered the Commission’s business continuity plans and noted that a number of improvements had been made to the overall framework. However, further work is needed to finalise the plan and to ensure that it is robust by undertaking scenario testing and the Committee would encourage the Commission to ensure that this is done during 2010-11.

**Budget and management accounts** – the Committee considered the work undertaken in response to the Finance Committee’s report on the Commission’s 2010-11 budget. It was supportive of the action taken to reformat the budget and, in particular, the level and use made of the contingency. The Committee also endorsed the proposed improvements to the internal management account. This was the first time that the Committee had considered the Commission’s budget and ongoing financial management arrangements.

## 5. Internal Audit

The Committee received internal audit reports on the following areas:

- Members Allowances Systems
- Corporate Governance
- Performance Monitoring
- Records Management
- Payroll and HR
- Key Financial Controls



- Budgetary Control
- Follow up of previous audits.

These reports provide a satisfactory level of assurance to the Committee on the overall control environment within the Assembly Commission. The Committee were encouraged to receive four audit reports on Corporate Governance, Payroll/HR, Key Financial Controls and Budgetary Control which provided substantial assurance. The Committee was also satisfied with the progress made in taking forward recommendations from the internal audit reports.

Towards the end of 2008/09, the Committee identified that greater benefit might be gained from the internal audit function and encouraged the Assembly Commission to develop its own internal audit expertise and to undertake a programme of value added audits. As a consequence a new post was created and Lynne Flux was appointed as the in-house Head of Internal Audit in November 2009. Records Management was selected as the first subject for a value added audit and the Committee considered the findings of that audit in February 2010.

The Committee agreed the outline Internal Audit strategy for 2010 – 2013, supporting the proposal to be proactive and provide advice and guidance to senior management concurrent with activities and developments as well as conducting retrospective reviews. The Committee also agreed the resourcing for the strategy which included the procurement of an external provider as well as reviews by the Head of Internal Audit. They endorsed the benefits of involving Assembly staff in the delivery of the audit function.

## **6. External Audit**

The Committee was pleased to note that the excellent working relationships between the Commission and the WAO have continued and been built upon during the year and that a culture of constructive challenge continues to exist within that relationship.



In response to the “Getting it Right for Wales” report, the Wales Audit Office introduced an additional element of testing as part of its annual audit of the accounts to examine a larger sample of expense claims made by Assembly Members. The programme will ensure that a sample of the payments to each Assembly Member will have been examined by the time of the next Assembly election. The Committee were pleased to note that the work to date has not uncovered any major failings.

## **7. Risk Management**

In fulfilling its role of challenging risk management within the organisation, the Committee considered the registers of Strategic Risks and Significant Operational Risks throughout the year. In addition the Committee considered the Commission’s risk management strategy and noted the progress made in promoting awareness and embedding the process. The Committee is pleased to note that the involvement of one of its independent members in this regard appears to have been fruitful in helping to promote awareness and improve the process.

The Committee considers that the risk management process is now at a stage that would enable a fresh look to be taken at the documentary evidence with a view to streamlining it a little and reducing the burden. This should help staff to take a more positive view of the process which in turn will assist with its embedding.

## **8. Statement on Internal Control**

The Committee considered the draft statement for 2008–09 in April and identified several areas where it could be expanded particularly with regard to the implementation of IFRS and the policy to develop financial skills across the organisation. The Committee had provided external challenge at



the interim statement stage and this was particularly useful in developing the final statement.

## **9. Other input from members of the Committee**

During the year members of the Committee have provided advice on a range of matters including the development of individual projects, climate change, changes in government finance and the Commission's Change Programme.

## **10. Effectiveness of the Committee**

The Committee asked the Wales Audit Office to repeat the e-survey previously undertaken in 2009 to review the effectiveness of the Committee. The Committee was generally pleased with the positive response and the improvement in perception compared with the previous year and agreed a number of actions to improve its effectiveness still further including the development of performance indicators for the internal and external audit functions and an increased focus on countering the risks of fraud.

## **11. Forward Look**

The Committee has an agreed work programme for 2010-11. In addition to the routine items (including the 2009-10 accounts to be prepared on an IFRS basis), the Committee will also be taking an active interest in the development and operation of the new internal audit service, the rollout of the audit strategy and the outcome of the added value audits. The Committee will also take a careful interest in the Commission's financial management given the tough financial environment that will be faced by the public sector as a whole. In particular, the Committee would like to monitor carefully the progress on the UNO project and the preparations for the fourth Assembly.



## **12. Conclusion**

Since the formation of the Committee in December 2007, we have seen good progress in building an effective system of corporate governance, and an increasingly strong culture of financial management and effective internal control; and we believe we can give a good level of assurance to the Commission. This is reflected in a stronger set of internal audit ratings over the last 12 months, and fewer issues in relation to external audit. However significant challenges lie ahead, not least in relation to value for money, efficiency and introduction of new systems. It will therefore be important for the Assembly Commission to build on the progress already made. It is well-placed to do so, particularly with the new internal audit arrangements, and we look forward to continuing to work with the Chief Executive and her staff over the coming period.

The Committee wishes to thank the Chief Executive and staff of the Assembly for the positive approach taken to its work. The Committee is also grateful to the internal and external auditors for undertaking their work in a constructive and helpful manner and to the Secretariat for ensuring that that the Committee operates in a smooth manner.

**Richard Calvert, Chair, Independent Adviser**

**Tim Knighton, Independent Adviser**

**Professor Robert Pickard, Independent Adviser**

**William Graham AM, Commissioner for Assembly Resources**