



Llywodraeth Cymru  
Welsh Government

**Board Meeting: 15 July 2016**

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**AGENDA ITEM: 7**

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| <b>Title of paper:</b>                | <b>Terms of Reference for the Welsh Government Audit &amp; Risk Committee</b>   |
| <b>Purpose of paper:</b>              | The paper is being brought to the Board to make the Members aware of the Terms of Reference set for the Audit & Risk Committee (ARC), which is a formal sub-committee of the Board.                 |
| <b>Action required by the Board:</b>  | The Board is asked to: <ul style="list-style-type: none"><li>• Review the Terms of Reference attached.</li><li>• Endorse the Terms of Reference agreed by the Audit &amp; Risk Committee.</li></ul> |
| <b>Official presenting the paper:</b> | Elan Closs Stephens,<br>Non-executive Director and Chair of the Welsh Government ARC  |
| <b>Paper prepared by:</b>             | Helen Morris<br>Head of Governance & Assurance  |

## **1. Background**

- 1.1 The Audit & Risk Committee was formed following the reorganisation of the Welsh Government in July 2015 and takes over from the Welsh Government Corporate Governance Committee (CGC) as the Board Sub-Committee providing oversight on matters of governance, risk management and control.
- 1.2 Previously, each Department had its own CGC and there was also a cross-Government CGC at the corporate level. However, matters being considered at the PSD/FCS CGC often overlapped with the matters being considered by the Welsh Government CGC. For this reason, when the restructuring took place, it was decided OFMCO would not have its own Group ARC, but OFMCO issues would be addressed at the Welsh Government ARC. The Terms of Reference agreed by the ARC members reflects this dual assurance role (at OFMCO Group level and at the wider Welsh Government level).

## **2. Issues for consideration**

- 2.1 Consequent to the change in name and structure, new terms of reference were required for the ARC. These are presented to the Board for ratification.

## **3. Resource implications**

- 3.1 None

## **4. Risks**

- 4.1 None

## **5. Communication**

- 5.1 No communication requirements arise.

## **6. General Compliance Issues**

- 6.1 The ARC operates in accordance with the HMT Audit & Risk Assurance Committee Handbook. The Handbook sets out the requirement for an ARC to have terms of reference and also includes an outline/template ToR for an ARC. This has been used to draft the ToR for the Welsh Government ARC.

## **7. Recommendation**

- 7.1 The Board is asked to review and endorse the Terms of Reference set by the ARC.

## **ANNEX A: TERMS OF REFERENCE FOR THE WELSH GOVERNMENT AUDIT AND RISK COMMITTEE**

### **1) CONSTITUTION**

The Audit and Risk Committee (ARC) is established to support the Permanent Secretary in his/her responsibilities as The Principal Accounting Officer for the Welsh Government, linked in particular to issues of risk, control, governance and assurance.

The ARC is responsible for reviewing the integrity of, and how comprehensive, effective and reliable are, the assurances processes put in place by, and required of, the Principal Accounting Officer.

The Welsh Government ARC is provided with Secretarial Support by the Corporate Governance Unit.

### **2) MEMBERSHIP**

The Memberships consists of seven Independent External Members:

- the four Welsh Government Non-Executive Board Members – one of whom shall be Chair of the Welsh Government ARC
- the Chair of the ESNR ARC
- the Chair of the EPS ARC
- the Chair of the HSS ARC.

Members shall normally serve for two years from the inception of the Committee, with a possibility of extension through re-appointment (particularly for new members).

Meetings should normally also be attended by:

- the Permanent Secretary
- the Director of Finance
- the Director of Governance
- the Head of Internal Audit
- the Internal Audit Manager for OFMCO
- CGU/Secretariat
- WAO Representative(s)

Other officials may, from time to time, be required to attend.

### 3) DUTIES

The duties of the Welsh Government ARC are twofold, as set out below:

#### **Internal Control, Governance and Risk in the Welsh Government**

- i) The Welsh Government ARC has overall corporate responsibility for the oversight of risk management and assurance across the Welsh Government, with a particular responsibility for considering the Principal Accounting Officer's annual Governance Statement (contained within the Welsh Government Accounts).

#### **Office of the First Minister and Cabinet Office (OFMCO)**

- ii) The Welsh Government ARC is also the body responsible for oversight of management of risk and assurance in the OFMCO Group, and will support and challenge the Permanent Secretary and the Director of Governance in their roles as Accounting Officers for that Group.

#### **Overarching Responsibilities**

In respect of these two functions, for OFMCO and for the wider Welsh Government, the Welsh Government ARC has been established:

##### General

- i) To consider, challenge, and make recommendations on, the effectiveness of the overall system of internal control, risk management and governance.
- ii) To consider whether adequate processes and mechanisms are in place for the assessment and management of risk, including consideration of changes to the Corporate Risk Register.
- iii) To review any significant changes to, or events involving, the corporate governance arrangements within the Welsh Government, to receive an annual report of the findings of the Internal Control Questionnaire across the Welsh Government and to receive bi-annual reports on Welsh Government adherence to the Common Control Framework.
- iv) To review the processes in place for meeting statutory and regulatory requirements.
- v) To confirm a Fraud Risk Assessment is in place and to monitor progress against the Assessment Plan.

- vi) To consider the arrangements relating to Information and Asset Security, to ensure they are adequate.

#### Internal Audit

- vii) To review the Internal Audit Strategy and annual Internal Audit Plans for the Welsh Government, and to advise the Permanent Secretary on how well the Government supports the Head of Internal Audit's responsibility to provide an annual opinion on the Government's assurance, risk management, control and governance processes.
- viii) To consider significant findings of internal audit reports relating to OFMCO and the adequacy of the OFMCO Management response.
- ix) To review progress in implementing recommendations from Internal Audit Reports, both within OFMCO and across the Welsh Government.

#### External Audit

- x) To consider and, where appropriate, confirm action is taken in response to, matters raised by the Auditor General for Wales, at both OFMCO level and at the wider Welsh Government Level.
- xi) To receive regular progress reports from the Wales Audit Office summarising work done and any emerging findings.
- xii) To examine the adequacy of Management's response to issues identified by the External Auditor.
- xiii) To review the External Auditor's management letter on their audit of the accounts, together with the management response.
- xiv) To consider value for money and other reports (including Evaluation reports) from External Auditors, and arrangements for their implementation.
- xv) To consider significant findings of European audit reports and the adequacy of the Management responses.

#### Annual Assurances: the Governance Statement

- xvi) To review the Governance Statement of the Principal Accounting Officer.
- xvii) To consider how well corporate governance arrangements support and validate the Governance Statement and recommend changes where the ARC deems them necessary.

- xviii) To review the systems in place to manage and monitor budgets and control arrangements over the preparation of the accounts to give the Permanent Secretary assurance that reliance can be placed on them.

#### Other Audit and Risk assurance Committees

- (xix) To consider the reports of the ESNR, EPS and HSS Audit and Risk assurance Committee Meetings provided to the Committee after each of their meetings, and to consider whether those reports highlight patterns of behaviour which should result in recommendations for action from the Welsh Government ARC to other Committees, or recommendations for Welsh Government-wide action
- (xx) To consider the robustness of, and assurance around, governance relationships between Welsh Government Groups and the Arms Length Bodies they sponsor, and also to consider the robustness of governance arrangements put in place by those Arms Length Bodies.
- (xxi) To commission reports from appropriate audit bodies on each such body on specific topics as it considers necessary.

#### Performance Monitoring

- (xxii) To review the performance and financial management and control systems in place, both within OFMCO and across the wider Welsh Government, to ensure they are fit for purpose and operate effectively.

#### General

- (xxiii) To consider any other matters where requested to do so by the Principal Accounting Officer, or by the Chairs of the Group ARCs.

### **4) ATTENDANCE AT MEETINGS**

Meetings of the Committee shall normally be attended by those listed above. Substitutes will be allowed, but must be agreed in advance with the Chair.

A quorum shall be four external members. In the absence of the appointed Chairperson, the Members shall appoint one of their number to preside.

The Committee can, at its discretion, call for other staff of the Welsh Government, or other persons, to attend the meetings to provide information so as to assist the Committee in the discharge of its duties.

The Committee may, at its discretion, ask any or all of those who normally attend but are not members, to withdraw to facilitate open and frank discussion of particular matters.

## **5) FREQUENCY OF MEETINGS AND REPORTING REQUIREMENTS**

The Committee shall meet four times per year. Additional meetings may be convened by the Chair if necessary.

A summary of key matters arising from each of its Committee meetings should be provided to the Welsh Government Board after each of its meetings. An annual report, detailing the Committee's work and summarising its conclusions, must also be provided to the Welsh Government Board at its meeting in June/July, at a time designed to support finalisation of the Accounts and the Governance Statement.

At least once a year, but it could be more frequent, the Committee shall hold a separate meeting with the representatives of the Wales Audit Office, the Internal Auditors, and with Senior Group Management to discuss any specific issues each may wish to raise, including issues on which those bodies might welcome the Committee's advice and guidance.

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.

## **6) AUTHORITY**

The ARC is an advisory body which may draw attention to the strengths and weaknesses in control within the Welsh Government and within the Office of the First Minister and Cabinet Office, and can make suggestions on how weaknesses might be addressed. It has the authority of the Permanent Secretary to investigate any activity within its terms of reference and to seek any additional information it requires from staff, who are expected to co-operate with the Committee in the conduct of its business.

The Committee can obtain independent professional advice if it considers this necessary.

**7) EVALUATION**

The Committee shall, from time to time but no less than every two years, review its own effectiveness and report the results of that review to the Board.

**July 2016**