Audit and Risk Assurance Committee

22 November 2017

Aviation House, Room 802

Minutes

# Present

Linda Farrant – Chair Ofsted Board Member

John Hughes Ofsted Board Member

Venessa Willms Ofsted Board Member

Amanda Spielman Her Majesty’s Chief Inspector

Matthew Coffey Chief Operating Officer

Louise Grainger Director, Finance, Planning & Commercial

Simon Helps External Audit (National Audit Office) (Items 1 -3)

Stephen Morffew External Audit (National Audit Office)

Danny Harvey Internal Audit (PricewaterhouseCoopers)

Saba Pooni Audit and Governance Manager (Secretariat)

# Summary of Action Points

Report from Chair and members

1. In January 2018 the committee will receive a paper on how it is preparing for the introduction of the General Data Protection Regulation (GDPR) regulations.
2. There will be an update about cyber security in the committee’s forward look.

External audit update

1. Committee members will attend a session about public sector accounts to enhance their understanding of the Ofsted Annual Report and Accounts.

Annual Report and Accounts timetable

1. Committee members will be able to review the Ofsted Annual Report and Accounts in April, once the Ofsted Executive Board has reviewed them. The governance statement will be reviewed during the interim National Audit Office (NAO) audit of Ofsted.

Internal audit update

1. PwC will meet with committee members for discussion on the draft Internal Audit Plan 2018-19, after the January Committee meeting.
2. Jane Forbes, PwC Head of Internal Audit, will agree to a date of the learning and development audit at January Committee, after discussion with management at scoping stage.
3. Jane Forbes and Louise Grainger will revise key performance indicative data in the 2018-19 Internal Audit Plan.

Finance Report

1. Louise Grainger will include the year to date budget, as well as year to date expenditure, in the Finance report.

# Chairman’s introduction, declarations of interest, minutes and matters arising

* 1. Linda Farrant opened the meeting and welcomed members. Apologies were noted from Jane Forbes. Introductions were made and there were no declarations of interest.
	2. Members accepted the minutes as an accurate record of the Audit and Risk Assurance Committee (ARAC) meeting held on 13 September 2017.
	3. Members noted two previous actions as complete and the culture audit update is on schedule.

# Report from Chair and Members

* 1. Venessa Willms discussed a successful scheduling pilot in the South East region. This allowed for more flexibility in terms of the way HM Inspectors work. It allowed inspections to be scheduled further in advance than had been the case before. Ofsted plans to roll out this pilot in the North West and the East of England for more testing.
	2. Members noted that the Ofsted Board had agreed that John Hughes will be the new ARAC chair when Linda Farrant’s appointment comes to an end on 31 January.
	3. Linda Farrant provided feedback from her attendance at the Annual Audit and Assurance Committee event on 31 October 2017. HM Treasury hosted this event, which provided an opportunity to network with other committee chairs. There were presentations on topical issues.
	4. GDPR will come into effect in May 2018. Internal auditors have completed the fieldwork on GDPR and the final report will be presented to the committee at its meeting in January 2018. Alongside this report, members agreed for a paper to be presented on the headlines of the new GDPR regulations and how Ofsted is preparing for it.

**Action 1: A paper will be presented on the headlines of the new GDPR regulations and how Ofsted is preparing for it, in January 2018.**

* Cyber security: Members agreed to an update on cyber security to be added to the Committee’s forward look, to give the committee assurance on Ofsted’s response to the revised security measures. Members noted that Ofsted is liaising with regulators and developing a co-ordinated approach to the government’s revised cyber security requirements.

**Action 2: An update on cyber security will be added to the committee’s forward look.**

* Committee chairs were urged to ensure that much of the external audit work is concluded earlier during the interim audit. This is to reduce the impact of late submissions.

**Action 4: Linda Farrant will circulate the NAO e:newsletter to Committee members.**

# External audit update

* 1. Simon Helps presented the NAO’s audit planning report on the 2017-18 financial statement audit. Members noted the NAO plan their audit of the financial statements to respond to the risks of material misstatement to transactions and balances and irregular transactions. They have identified only one risk that is common to all government departments and has a significant impact on our audit: presumed risk of fraud through management override of controls. The NAO has not identified any indication of fraud through management override of controls and expect no change to the risk profile in 2017-18.
	2. Members noted that the following are matters which the NAO consider have a direct impact on the financial statements, but do not represent risks of material misstatements.
	3. Members noted in line with generally accepted practice, the NAO has set our quantitative materiality threshold as approximately 2% of gross expenditure, which equates to £3 million. These levels remain comparable to those used in the prior year.

**Action 5: A session on public sector accounting will be provided to existing and new members of ARAC, to understand the complexities of the Annual Report and Accounts.**

* 1. Members noted the following value for money reports that are of interest to Ofsted:
* Investigation into the circumstances surrounding the monitoring, inspection and funding of Learndirect – publication in winter 2017-18
* Converting schools to academies – publication early 2018
* Ofsted's inspection of schools – publication in spring 2018

# Annual Report and Accounts timetable

* 1. Louise Grainger presented the proposed governance arrangements and draft timetable for production of the Annual Report and Accounts 2017-18. The proposed approach takes account of the lessons learned exercise undertaken jointly with the NAO and builds upon the improvements made to the Performance Report last year.
	2. As set out in the NAO Audit Planning Report, the interim audit of the accounts and governance statement will be undertaken in February 2018. The final audit of Ofsted’s Annual Report and Accounts is planned for May 2018.
	3. Members reviewed the timetable and asked that the draft Annual Report and Accounts are shared with Audit and Risk Assurance Committee members following the Executive Board review on 26 April 2018.

**Action 6: The ARA timetable will be amended to enable ARAC members to review and comment on the draft Annual Report and Accounts in April once EB have reviewed.**

* 1. Members noted that the interim governance statement will be presented at the January 2018 meeting. Louise Grainger asked if this could be reviewed during the interim NAO audit.

**Action 7: The interim governance statement to be reviewed during the interim NAO audit.**

* 1. Simon Helps noted that the final governance statement would need to include an update on the value for money study currently underway.

# Internal Audit update

* 1. Danny Harvey presented an update on the activity completed since the last Committee meeting on 13 September 2017.
	2. Members agreed for the Corporate Governance audit to be moved to end of the financial year to align with the appointment of the new Head of Corporate Governance.
	3. Members agreed for the draft Internal Audit Plan for 2018-19 to be presented to the March 2018 meeting. In advance, at the January meeting members agreed to have an informal discussion with the Head of Internal Audit.
	4. **Action 8: PwC will meet with ARAC members for discussion on the draft Internal Audit Plan 2018-19, after January Committee meeting.**
	5. Members asked internal audit to agree start date for the Learning and Development audit with Director, People and Operations and seek formal approval by members at its meeting in January 2018.
	6. **Action 9: Jane Forbes will agree a start date of Learning and Development audit at January Committee, after discussion with management at scoping stage.**
	7. Members noted the KPI performance data for internal audits to date and the Chair has asked the Head of Internal Audit and the Director, Finance Planning and Commercial to consider revising the KPIs in next year Internal Audit Plan, with meaningful KPI data.
	8. **Action 10: Jane Forbes and Louise Grainger will revise KPI performance data in the 2018-19 Internal Audit Plan with meaningful data.**

# Issued Internal Audits reports

* 1. Danny Harvey reported that since the last ARAC meeting on 13 September 2017, PwC has issued three final reports which are summarised below.
	2. **Continuous Auditing (part 1)** – The purpose and objective of the continuous audit programme is to test key financial controls on an on-going basis to assess whether they are operating effectively and to flag areas and/or report transactions that appear to circumvent controls. Given the nature of the audit, PwC have provided a separate rating for each sub-process, rather than an overall rating for the report. No issues were identified.
	3. **Utilisation of Inspectors** – This audit was classified as low risk. This audit reviewed how Ofsted measures and monitors the utilisation and workload of Her Majesty’s Inspectors (HMIs and SHMIs) and comparing this with good practice. The audit identified one medium risk finding relating to further uses of the utilisation measure.
	4. **Early Years Project Assurance** - This audit was classified as low risk. This audit has focussed upon the deliverables of Phase 1, specifically the lessons learned and benefits realised, whilst also assessing the proposed approach, project plan and governance arrangements in place for Phase 2. The fieldwork was conducted between July and September 2017 at which point Ofsted had begun to implement Phase 2 and are working towards a fully regionalised Early Years inspector workforce by January 2019. As a result of the audit, PwC have highlighted two medium risks and one low risk finding within this report.
	5. Danny Harvey agreed to provide greater clarity in their recommendations and for management to be more precise on the actions they agree to.

# Progress against audit recommendations

* 1. Members noted the progress against audit recommendations report for end of October 2017. One action to address the findings of the Contracting with Ofsted Inspectors audit which had passed its target completion date, was reported as complete.

# Deep Dive update

* 1. Linda Farrant reported that ARAC members carried out a deep dive of Ofsted’s strategic risk relating to inspector and APT morale and workloads, on the 23 October 2017. The output from the session was reported to the Ofsted Board. Members agreed the session was mutually beneficial and useful to undertake.
	2. The risk description and mitigating actions were revised and tabled to members of the committee for comment. The current and residual risk rating remains very high although the early indications are that the mitigations are having a positive impact and the risk should be able to be reduced at the end of the year. Next steps are to assess the impact of each mitigating action and represent to the Ofsted Board in January.

# Risk Report

* 1. Louise Grainger presented the strategic risks reviewed by the Executive Board on 1 November 2017.

# Finance report

* 1. Louise Grainger presented the financial position at the end of period 6 and discussed the risks and opportunities to the reported position.
	2. **Action 12: Louise Grainger will include year to date budget, as well as year to date expenditure, in the finance report.**

# Any other business

* 1. Members reviewed the committee’s forward look and made some suggested changes.
	2. Members noted that Ian Ferguson, Chair of the Department for Education, Audit and Risk Committee, is chairing the ALB Audit and Risk Chair’s network. They meet twice yearly April and October 2017. Linda Farrant is an attendee and going forward John Hughes has been invited to attend. Louise Grainger explained she will attend a separate ALB risk network on 29 November 2017.
	3. **The next Audit Committee meeting will take place at 10.30 on Wednesday 24 January 2018, in Aviation House room 802.**