



Cafcass Audit and Risk Assurance Committee Annual Report 2009–2010

June 2010

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1.0 Introduction

The Audit Committee Handbook (HM Treasury, March 2007) requires that the Audit Committee report annually to the Board. The *Corporate governance in central government departments: Code of Good Practice* (HM Treasury, July 2005) and *The Good Governance Standard for Public Services* (The Independent Commission for Good Governance in Public Services, 2004), suggests it is good practice that the Board should review the effectiveness of its Audit Committee annually.

This report covers the period 1 April 2009 to 31 March 2010.

The membership of the Audit and Risk Assurance Committee was as follows:

Nicholas Stuart	Chair
Jennifer Bernard	Member – term concluded in September 2009
Mark Eldridge	Member
Ernie Finch	Member
Harry Marsh	Member – term concluded in March 2010
Shireen Ritchie	Member – term commenced in June 2009

The terms of reference of the Audit and Risk Assurance Committee were updated in May 2009 to strengthen the Committee's risk management responsibilities and these are attached at Annex A. These are to be reviewed by the Audit and Risk Assurance at the September 2010 Committee meeting and will be updated to reflect any changes prior to final approval by the Board.

The Audit and Risk Assurance Committee met six times during the year. Attached at Annex B is a schedule of the agenda items considered by the Audit and Risk Assurance Committee at these meetings.

2.0 Financial statements audit

The financial statements (Annual Report and Accounts) are audited in line with the audit strategy drawn up by the National Audit Office, Cafcass' external auditors. The financial statements are submitted to the June 2010 Audit and Risk Assurance Committee meeting for endorsement and are also formally approved by the Board in June 2010.

3.0 Audit and Risk Assurance Committee Governance

At each Board meeting the Chair of the Audit and Risk Assurance Committee provides feedback on the previous Audit and Risk Assurance Committee meeting. The full Board receives a copy of the Audit and Risk Assurance Committee minutes; in addition all Board members have an open invitation to attend the Audit and Risk Assurance Committee or request papers. The Audit and Risk Assurance Committee have an open dialogue and access to both internal and external auditors. The Audit Chair meets with the internal and external Cafcass Audit and Risk Assurance Committee Annual Report 2009–2010

Auditors twice a year and the full Audit and Risk Assurance Committee meet in a private session with the internal and external auditors on an annual basis.

4.0 Audit and Risk Assurance Committee Opinion

The role of the Audit and Risk Assurance Committee is to support and advise the Board and CEO (Accounting Officer) by reviewing the effectiveness of assurances including internal controls and risk management. The Audit and Risk Assurance Committee draws its assurance from internal audit reports, the internal audit annual assurance statement, the work of Ofsted and that of NAO through their management letter. The Audit and Risk Assurance Committee reviews with senior management issues regarding risk, and monitoring of action against recommendations from internal audit reports.

Based on these sources of assurance, the opinion of the Audit and Risk Assurance Committee is that Cafcass had adequate and effective risk management control and governance processes in place to manage the achievement of the organisations objectives.

Three areas of risk management stand out in the Committee's work this year. The first was to ensure sufficient controls were put in place to prevent overheating of the Cafcass budget, following the 2008/09 overspend. The work of the Expenditure Control Group and the Star Chamber process provided the requisite level of assurance, and the risk was managed both internally and with our sponsor (DCSF). The second was to continue to improve the quality of front-line services in tandem with implementation of the recommendations in Ofsted reports of local service areas. Whilst Ofsted reports found considerable improvements had taken place, some findings remained of great concern and the Committee will continue to monitor the outcomes of Ofsted inspections as a priority.

Finally, the Flex transition from Unisys to Fujitsu (Flex) as our main IT Supplier was finally completed in December 2009. The Audit and Risk Assurance Committee has been updated regularly on the commercial risks caused by the delay. The performance and reliability of Flex remains a significant risk to the efficient operation of Cafcass and the Committee continues to monitor this area through the Corporate Risk Management process and directly through rigorous contract management.

5.0 Internal Audit

PricewaterhouseCoopers were appointed as the Cafcass internal audit provider on a 3 year contract from the 1 April 2007. Following discussions in late 2009 between The Chair of the Audit and Risk Assurance Committee, the CEO, and the Director of Finance, Cafcass agreed with PricewaterhouseCoopers to exercise a 2 year option to extend the contract to 31 March 2012.

The internal audit plan for 2009-10 covered the review and assessment of Cafcass' internal controls and business processes in the following areas:

- Corporate Governance and Risk Management
- Financial systems
- Programmes, Projects & Major Contracts
- Key Business Systems and Operations

The *Internal Audit Annual Report 2009/10* from the internal auditors is attached to this report and provides assurance from the internal audit assignments undertaken during the year. The opinion provided by Internal Audit is “moderate assurance” on the adequacy and effectiveness of the system of internal control overall. This is the same result as for 2008-09 demonstrating a sustained improvement (2007-08 received an overall opinion of ‘limited assurance’)

The report identified specific improvements especially in relation to the Corporate Centre, including business planning, contracts, and IT and Data Security management. The report also identified 2 key areas for further work in 2010-11. The first related to improvement to risk management processes at service area level through ensuring that effective risk registers are in place and that they are reviewed and updated regularly at the Service Improvement Meetings. The second related to improvement to local office controls in relation to compliance with purchase order processes, and office security policy.

6.0 Progress against internal audit recommendations

Progress against the implementation of internal audit recommendations is considered at each Audit and Risk Assurance Committee meeting, with any missed deadlines clearly identified and accompanied by an explanation. A total of 134 internal audit recommendations have been monitored during 2009-10, of which 88 were deemed by Cafcass to have been implemented at the time of the PricewaterhouseCoopers annual follow up review on the status of recommendations as reported to the Audit and Risk Assurance Committee. This review provided **a high level of assurance** on the adequacy and operating effectiveness of controls in place over the follow up of internal audit recommendations.

As at 31 March 2010, taking out the recommendations for which the implementation deadline is yet to pass (those categorised as ‘future dated’), resulted in 89% of recommendations being reported as implemented.

7.0 Risk management

The Audit and Risk Assurance Committee review and discuss the Corporate Risk Register on a regular basis. During the course of 2009-10 the Corporate Risk Register was updated to reflect the revised operational priorities with a greater emphasis on Safeguarding, budget management and an unprecedented increase in demand for the service. Cafcass have acknowledged the need to further embed and increase risk management compliance at the local level. To support this work the risk management policy, guidance, and supporting templates have been revised, simplified and reissued to Heads of Service.

8.0 Internal Audit Programme 2010-12/11

The internal audit programme for 2010-12 was developed in consultation with the Chief Executive, senior management and the Board and was approved by the Audit and Risk

Assurance Committee in March 2010. The 2-year plan allows greater flexibility within the programme and more time for follow up. The plan includes compliance reviews of the Quality For Children Performance Management Framework, and the revised Case Recording and Complaints policies.

9.0 Annexes

The following annexes are included with this report:

Annex A	Terms of reference of the Audit Committee
Annex B	Schedule of Audit Committee agenda items: 2009-10

The PricewaterhouseCoopers Internal Audit Annual Report 2009-10 is included as a separate attachment.

TERMS OF REFERENCE FOR THE CAFCASS AUDIT AND RISK ASSURANCE COMMITTEE

1) Constitution

The Board hereby resolves to establish a Committee of the Board to support them in their responsibilities for issues of risk, control and governance and associated assurance to be known as the Audit and Risk Assurance Committee.

The Audit and Risk Assurance Committee will carry out the regulatory functions of an Audit Committee for Cafcass.

2) Membership

The Chair and members of the Audit and Risk Assurance Committee shall be Board members and shall be appointed by the Board. The Committee shall consist of six members and the Chair shall not be the Chair of the Board. The Committee may co-opt up to two external members with relevant expertise.

3) Meetings

The Audit and Risk Assurance Committee shall meet at least four times a year. The Chair of the Committee may convene additional meetings if they are deemed necessary.

A minimum of three members of the Committee will be present for the meeting to be deemed quorate.

The Chief Executive, in his role as Accounting Officer, the Head of Finance, the Head of the Cafcass Sponsorship Unit, Department for Children, Schools and Families (DCSF), the Head of Internal Audit, and the National Audit Office will normally attend meetings of the Committee.

The Committee may ask other staff to attend to assist with its discussions on a particular matter.

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

The Accounting Officer (or Board) may ask the Committee to convene further meetings to discuss particular issues on which they want the Committees advice.

Board members who are not members of the Committee will have the right of attendance. The Board and Committee Administrator will circulate minutes of the meetings of the Committee to all Members of the Board.

4) Access

The Head of Internal Audit and the representative(s) of the external audit office will have free and confidential access to the Chair of the Audit and Risk Assurance Committee as required.

5) Reporting

The Chair of the Audit and Risk Assurance Committee will formally report back to the Board after each meeting.

6) Responsibilities

The Audit and Risk Assurance Committee is an advisory body with no executive powers. It will advise the Board on:

- Arrangements and processes for the management of risk, organisational systems, internal controls and governance, that it considers appropriate in helping the Board discharge its duties.
- Accounting policies, the accounts, and the annual report for the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and the management's letter of representation to the external auditors
- Planned activity and results of both internal and external audit and the arrangements for their implementation
- Adequacy of management response to issues identified by audit activity, including external audit's management letter
- Assurances relating to the corporate governance requirements for the organisation, ensuring Cafcass complies with all relevant legislation, regulations and good practice
- Proposals for tendering for internal audit services or for purchase of non-audit services from contractors who provide audit services
- Establishment of an effective framework for accountability for the organisation and compliance with that framework
- Arrangements for securing value for money throughout Cafcass

The Committee is authorised to obtain professional advice if it considers this necessary.

7) Information requirements

The Audit and Risk Assurance Committee will be provided with, but not limited too, the following progress reports:

Cafcass Head of Finance:

- Draft annual accounts pre-external audit and summary explanation
- Draft annual Statement on Internal Controls (SOIC) and summary and stewardship reports from risk owners
- Management responses to audit recommendations (coordination)
- Details of unresolved audit recommendations (coordination)

Corporate Director (Strategy and Performance):

- Quarterly update of the risk register to capture emerging risks or any changes to the key risks
- Bi-annual update on the status of Ofsted Inspections

National Audit Office:

- Progress report from external audit representatives summarising work done and the emerging findings

Internal Audit Provider:

- Work performed (and a comparison with work planned)
- Key issues emerging from internal audit work
- Changes to the annual audit plan
- Any resource issues affecting the delivery of the internal audit objectives
- Progress report with copies of relevant internal audit reports

As appropriate:

- Proposals for the terms of reference for internal audit
- The internal audit strategy and periodic plan
- The Annual Report and opinion of the Head of Internal Audit
- The Financial Controllers annual opinion and report
- Quality Assurance reports on the internal audit function
- The draft accounts of the organisation
- The draft Statement on Internal Controls (SOIC)
- A report on any changes to accounting policies
- A report on any changes in regulatory environment that may affect NDPBs
- External audit's management report
- A report on any proposals to tender for audit functions
- A report on the co-operation between internal and external audit.
- Annual external audit plan for Cafcass.

Annex B

Cafcass Audit and Risk Assurance Committee Agenda Items for 2009-10

A&RAC Meeting	Additional Items
	<p>Standard Items - every A&RAC:</p> <ul style="list-style-type: none"> • Update on Internal & External recommendations • PricewaterhouseCoopers Internal Audit Activity Report
18 th May 2009	<ul style="list-style-type: none"> • Proposal to change name of Cafcass Audit Committee and proposed revised ToR • How the Board & A&RAC will ensure their involvement against key decision in relation to Flex rollout • Progress on best option considerations and value for money in relation to Security Policy Framework (SPF) work • PricewaterhouseCoopers Annual Report • 2008/09 Draft Annual Report & Accounts • Status report on Ofsted Inspections (bi-annual item) • Corporate Risk Register • Risk Management Policy • 2009-11 Corporate Business Plan <p><u>PricewaterhouseCoopers Internal Audit Reports:</u></p> <ul style="list-style-type: none"> • Risk & SoIC Review • Improvement Models Review • KLPD VFM Study • 2008/09 Follow-up Review • Procurement & Commissioning • IT & Data Handling
26 th June 2009	<ul style="list-style-type: none"> • Annual Report & Accounts sign-off • NAO Management Letter • Draft Audit Committee 2008/09 Annual Report to the Board
7 th September 2009	<ul style="list-style-type: none"> • IFRS Shadow Accounts 2008-09 • Corporate Risk Register • Update on the strategic risk around rollout of Flex • Cafcass skills set – link between KLPD and HR <p><u>PricewaterhouseCoopers Internal Audit Reports:</u></p> <ul style="list-style-type: none"> • Budget Overspend Review • KLPD Value for Money Review • Business Planning Review
9 th November 2009	<ul style="list-style-type: none"> • NAO Audit Strategy • NAO ‘Views on the Statement of Internal Control’ • Status report on Ofsted Inspections (bi-annual item) • Report on ex gratia payments <p><u>PricewaterhouseCoopers Internal Audit Reports:</u></p> <ul style="list-style-type: none"> • Contracts Review
25 th January 2010	<ul style="list-style-type: none"> • PricewaterhouseCoopers 2010/12 draft Internal Audit plan • NAO Trigger point 4 report

A&RAC Meeting	Additional Items
	<ul style="list-style-type: none"> • Corporate Risk Register • 2009/10 Annual Report and Accountants draft timetable • Contract Overview paper (requested at Nov A&RAC) • Comparative figures for Special Payments (requested at Nov A&RAC) • Learning from reviews to inform service practice and improvement <p><u>PwC Internal Audit Reports:</u></p> <ul style="list-style-type: none"> • Efficiency Savings Review • FMS Review
29 th March 2010	<ul style="list-style-type: none"> • PricewaterhouseCoopers updated 2010/12 draft Internal Audit plan • Corporate Risk Register • Draft Risk Management Policy- updated • NAO Interim Audit • Proposed NAO vfm Study of Cafcass • 2009/10 Annual Report and Accounts template • Position Statement on No. Of Agency Staff and related spend • Ofsted Inspections – status update <p><u>PricewaterhouseCoopers Internal Audit Reports:</u></p> <ul style="list-style-type: none"> • Risk Management • HR Controls – Agency Staff • 2009/10 Follow up Review • Business Continuity rehearsal