

2013-14 Annual Report to the Board on the business of the Audit & Risk Assurance Committee

Introduction

The *Corporate governance in central government departments: Code of good practice 2011* requires that the Board receive annually a report on the work of the Audit and Risk Assurance Committee (ARAC). The Chair of the ARAC, Francis Plowden, reports orally back to the Board following every meeting of the ARAC and the minutes from every meeting of the ARAC are included in the Board papers. The purpose of this report is to present to the Board a summary of the ARAC's business for the year in a way which ensures that Cafcass complies with the code.

The role of the ARAC

The purpose of the ARAC is to review the comprehensiveness of the assurance processes, the integrity of the financial statements, and the identification and mitigation of risks. The ARAC support the Board in its assessment of the strategic risks faced by the organisation, and they inform and agree the internal audit programme of work and monitor its delivery. The ARAC draws its assurances from internal and external audit reports and assurance reports from Cafcass managers on a wide range of matters concerning governance, risk, and control.

The terms of reference of the ARAC

The terms of reference of the ARAC are set out at **Appendix A** and are reviewed and approved annually by the Board.

The structure of the ARAC and its meetings

The ARAC membership is made up of six Board members all of whom have relevant backgrounds and experience to provide oversight and guidance on matters of risk and assurance. The ARAC has an open invitation to attend to all Cafcass Board members. Attendees of the ARAC are the Chief Executive, the Director of Finance, internal and external auditors, and occasionally a representative from our sponsorship Department.

Meetings are held every quarter with an extended meeting in June each year to approve the annual resource accounts which includes the whole Board membership. The ARAC members and the internal and external auditors meet privately after every meeting of the ARAC.

An exercise was undertaken during the year to ensure balanced and effective coverage of matters of risk and assurance across the three sub-committees of the Board. This resulted in the initiation of a regular meeting between the three Chairs of the sub-committees to ensure there are no gaps in coverage of the assurance processes and overlaps are minimised.

External Audit (NAO)

The National Audit Office is the external auditor to Cafcass and for last three years they have subcontracted their audit delivery arrangements to Deloitte. They deliver the annual audit of the financial statements in May with an interim audit in February. An NAO Director and Audit Manager and a Deloitte Partner and Audit Manager attend meetings and provide expertise on a range of matters. During the year, and following a request from the ARAC Chair, the NAO Audit Manager

facilitated a self-assessment exercise for the Committee which the ARAC found helpful and informative.

NAO Year-End Audit

The National Audit Office through Deloitte have now completed their 2013-14 Financial Year-End audit of Cafcass, inclusive of Cafcass' 2013-14 Annual Report, and have issued their Audit Completion Report (inclusive of Management Letter) with an unqualified opinion.

Internal Audit

The internal audit service is delivered through a joint provision model. PricewaterhouseCoopers (PwC) provide the Head of Internal Audit and deliver reviews of a specialist nature, with Business Assurance, the in-house delivery function delivering a number of reviews with oversight from the Head of Internal Audit. PwC completed a review of the Business Assurance function early this year to provide assurance to the ARAC on the function's effectiveness. The findings from this review resulted in enhancements to the Business Assurance delivery model through improved control mapping and appropriate sample sizing.

The Internal Audit Annual Report 2013-14 (which includes the Head of Internal Audit Annual Opinion) is attached to this report.

Highlights from the work of the ARAC during the year included:

- The ARAC provided significant input into an exercise to rebase the strategic risk register, with a focus on improving the presentation of the systems risks associated with the safety of casework while ensuring an appropriate level of coverage with the Board Quality Committee.
- The ARAC reviewed the information assurance arrangements including the types and levels of breaches, and received assurance on mitigating activities. This included information from management about the increased use of pre-populated templates to mitigate keying errors that may lead to information being sent to a wrong address. This is the most common type of breach, although still low with less than 50 reported instances in 2013/14). Management assured the ARAC that there is a strong culture of those disclosure errors that may lead to safeguarding issues.
- The ARAC reviewed the counter-fraud arrangements for the organisation including Cafcass' response to the Departmental fraud and error capacity assessment. Payments to non-payroll staff and travel and subsistence were two areas identified as risks for Cafcass but not of a significant nature. A further action was taken by management to provide assurances to the ARAC on the arrangements for handling gifts and hospitality.
- The ARAC requested and received further assurances on Cafcass' policy and procedure for pre-employment checks with reference to the new Disclosure & Barring Service which had replaced the Criminal Records Bureau.
- The ARAC received a presentation from colleagues at the Ministry on Justice on the progress of the due diligence arrangements to support the change in sponsorship. The ARAC sought particular assurances around the new reporting and delegation structure and the robustness of internal and external communication strategies to aid transition.

- The ARAC requested a report on payments relating to issues of a potentially contentious nature given that restructuring in previous years had resulted in a large number of redundancies. Assurances were provided by management that all such payments are made in accordance with Government wide policy, were audited by the NAO, and, where required, were approved by the Department or HM Treasury.
- The ARAC received an assurance report on Cafcass' arrangements for responding to threats to staff members or incidents of abuse from service users which lead to a further action to regularise the reporting of such incidents to the full Cafcass Board.

2014-15

In 2014-15 the ARAC will continue to provide oversight of the effectiveness of mechanisms and models of governance, risk and control. In particular, the ARAC will address: the quality of assurances to support the redesign of the IT specification given the current contract with Fujitsu will be retendered in 2016; the findings from the 2013/14 Ofsted inspection with a focus on any risks identified which relate to the need to improve business systems, and the new working arrangements with the Ministry of Justice, including the potential move in 2016 to a shared-service internal audit delivery model.

Appendix A

CAFCASS AUDIT AND RISK ASSURANCE COMMITTEE
TERMS OF REFERENCE

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 Director of Finance, and a representative from the Cafcass Sponsorship Unit, 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 Committee's 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 to, the following progress reports:

Chief Executive/Cafcass Director of Finance/Corporate Strategist:

- Draft annual report and accounts pre-external audit and summary explanation
- Progress on the annual Governance Statement and summary and stewardship reports from risk owners
- Management responses to internal and external audit recommendations
- Details of unresolved audit recommendations
- Quarterly update of the risk register to capture emerging risks or any changes to the key risks
- Updates on the status of Ofsted Inspections
- A report on any proposals to tender for audit functions
- Quality Assurance reports on the internal audit function
- A report on any changes to accounting policies
- A report on any changes in regulatory environment that may affect ALBs

National Audit Office:

- Annual Strategy
- Interim management report
- Progress report from external audit representatives summarising work done and the emerging findings
- Final management report
- Certificate and report from the Comptroller and Audit General

Internal Audit Provider:

- 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
- 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

The terms of reference was reviewed by the Audit and Risk and Risk Assurance Committee on the 12th May 2014.