



Future Generations Commissioner for Wales

Internal Audit Annual Report

Deloitte Confidential: Public Sector

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Distribution List:

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- Director of Finance and Corporate Governance
- Audit and Risk Assurance Committee
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This report has been prepared on the basis of the limitations set out in Appendix C.

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Executive Summary

1 Introduction

The purpose of this report is to present the results of the internal audits completed by Deloitte LLP in our capacity as internal auditors during 2017/18. We have now completed the internal audit programme approved by the Audit and Risk Assurance Committee for 2017/18 covering the period 1 April 2017 to 31 March 2018.

The role of internal audit is to provide independent and objective assurance to the Accounting Officer on risk management, control and governance. The assurance given by internal audit is a key element of the framework of assurance, which the Accounting Officer needs to inform the completion of the annual Governance Statement. Assurance from internal audit can, however, only be reasonable in the sense that no opinion or assurance can ever be absolute and is by definition an extrapolation of the evidence available. The internal audit assurance does not supersede the Accounting Officer's personal responsibility for risk management, control and governance.

As required by the Public Sector Internal Audit Standards (PSIAS), we confirm our independence as internal auditors from the Future Generations Commissioner for Wales (the Commissioner). We also confirm compliance with the requirements of the PSIAS.

All assurance ratings should be considered by reference to Appendix A. We have included our self-assessment of our performance as internal auditors in Appendix B.

2 Corporate Governance and Risk Management

In accordance with the PSIAS, we carry out internal audit work in relation to corporate governance and risk management on an annual basis. In 2017/18 our internal audit of corporate governance focused on the following objectives:

- Ethics and values are promoted within the organisation;
- Controls are in place to support organisational performance management and accountability;
- Risk and control information is communicated to appropriate areas of the organisation;
- Controls are in place to coordinate the activities of the Commissioner, the Audit and Risk Assurance Committee, external auditors and management; and
- There is evidence of communication between the Commissioner, the Audit and Risk Assurance Committee, external auditors and management.

Based on the work undertaken as detailed in our internal audit report for 2017/18, our overall assessment is that the classification of assurance for the design of corporate governance controls is **substantial assurance**.

In 2017/18 our internal audit of risk management focused on the following objectives:

- Organisational objectives support and align with the organisation's mission;
- Significant risks are identified and assessed;
- Risk responses are selected that align risks with the organisation's risk appetite;
- Risk information is captured and communicated in a timely manner across the organisation, enabling staff, management, the Audit and Risk Assurance Committee and the Commissioner to carry out their responsibilities; and
- The risk register format is aligned to the good practice example set out by HM Treasury.

Based on the work undertaken as detailed in our internal audit report for 2017/18, our overall assessment is that the classification of assurance for risk management is **substantial assurance**.

3 Assurance Statement

We are required to provide assurance on risk management, control and governance. In assessing the level of assurance to be given, we have taken into account:

- all internal audits undertaken between 1 April 2017 and 31 March 2018;
- the action taken in response to our audit recommendations;
- whether high or medium priority recommendations have been accepted by management, and the consequent risks;
- the effects of any material changes in the organisation's objectives or systems; and
- Whether or not any limitations have been placed on the scope of internal audit.

Based on the work we have undertaken during the year we are able to conclude that the Commissioner has a basically sound system of internal control, which should provide **moderate assurance** regarding the achievement of the Commissioner's objectives.

4 Sources of Assurance

To obtain the required assurance we undertook an agreed programme of work with the following objectives:

- to appraise the adequacy and effectiveness of the internal control environment;
- to seek to understand the extent to which the system of internal control ensures compliance with established policies and procedures;
- to seek to understand the extent to which the assets and interests entrusted to or funded by the Commission are properly controlled and safeguarded from losses arising from fraud, irregularity or corruption;
- to seek to understand that accounting and other information is reliable as a basis for producing accounts, and financial, statistical and other returns;
- to seek to understand the integrity and reliability of financial and other information provided to management, including that used in decision making; and
- to seek to understand that systems of control are laid down and operate to promote the most economic, efficient and effective use of resources.




In Section 1, we have provided a statement of the level of assurance achieved for each system audited during the year. Substantial, moderate or limited assurance has been achieved for all internal audits performed where an assurance rating was provided in 2017/18.

5 Acknowledgement

We would like to take this opportunity to thank management and staff for the assistance and co-operation received in completing the internal audits during this period.

Section 1 - Assurance Statement

A statement of the level of assurance achieved for each area of audit is shown below. Appendix A provides definitions for each of the assurance levels.

Internal Audit Area	Level of Assurance
<p>Financial Systems:</p> <p style="text-align: center;">Budgetary Control</p> <p style="text-align: center;">Purchasing and Payments</p> <p style="text-align: center;">General Ledger</p> <p style="text-align: center;">Outsourced Payroll</p> <p style="text-align: center;">Banking and Cash Management</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p> <p style="text-align: center;"></p>
<p>Corporate Governance</p> <p>Risk Management</p>	<p style="text-align: center;"></p> <p style="text-align: center;"></p>
<p>Cyber Security</p>	<p style="text-align: center;"></p>
<p>Data Protection</p>	<p style="text-align: center;"></p>

The assurance gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Section 2 - Summary of 2017/18 Internal Audit Findings

This section of the report provides details of the audit recommendations raised during the year. Internal audit recommendations are graded in order of importance in accordance with the priority levels defined in Appendix A.

In 2017/18 we raised 11 new recommendations (14 in 2016/17):

Internal Audit Area	High priority	Medium Priority	Low Priority	Total
Financial Systems	-	-	-	-
Corporate Governance and Risk Management	-	-	-	-
Cyber Security	1	4	1	6
Data Protection Act	-	4	1	5
Total	1	8	2	11

Follow Up





Each year we follow up progress made in implementing internal audit recommendations raised in previous years. We followed up on a number of prior year recommendations in 2017/18, the status of which is as follows:

Internal Audit Area	Implemented /Will not be Re-raised	Partially Implemented	Re-raised	Total
Financial Systems	8	1	2	11
Corporate Governance and Risk Management	2	-	1	3
Total	10	1	3	14

Appendix A – Reporting Definitions

Audit Assurance




We have four categories by which we classify internal audit assurance over the systems we examine: Substantial, Moderate, Limited or Unsatisfactory which are defined as follows:

Assurance level	Definitions for Annual and Engagement assurance level	Factors influencing choice of assurance level
	The framework of governance, risk management and control is adequate and effective.	<ul style="list-style-type: none"> • Adequacy and effectiveness of the governance, risk management and control framework; • Impact of any weakness on delivery of objectives; • Extent of risk exposure; • Materiality: by value to the entity, by value in the engagement context and by nature (eg irregularity and reputational risk); and • We may also take account of management responses to recommendations.
	Some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.	
	There are significant weaknesses in the framework of governance, risk management and control such that it could be or could become inadequate and ineffective.	
	There are fundamental weaknesses in the framework of governance, risk management and control such that it is inadequate and ineffective or is likely to fail.	

The assurance gradings provided here are not comparable with the International Standard on Assurance Engagements (ISAE 3000) issued by the International Audit and Assurance Standards Board.

Grading of Recommendations

In order to assist management in using our reports, we categorise our recommendations according to their level of priority as follows:

Priority Level	Definition
	Recommendations which are fundamental to the system and upon which the organisation should take immediate action;
	Recommendations which, although not fundamental to the system, provide scope for improvements to be made; and
	Recommendations concerning issues which are considered to be of a minor nature, but which nevertheless need to be addressed.

Appendix B - Our Performance Assessment

A self-assessment of our performance for 2017/18 is as follows:

The Deloitte approach to performance management – the 5Ps	
<p>Purpose and remit</p> <p><i>We have a clear focus on the purpose of our work</i></p> <ul style="list-style-type: none"> • governance framework; • assurance framework; and • audit charter – objectives, scope and responsibilities. 	<p>We issued a risk based Internal Audit Plan for the period 2017/18 which was approved by the Audit and Risk Assurance Committee.</p> <p>We issued an engagement letter on 2 June 2017 which was agreed and signed by the Director of Finance and Corporate Governance on 19 July 2017.</p> <p>We have issued Terms of Reference for 100% of the reviews undertaken. These Terms of Reference have included the budgeted number of days, objectives, methodology, specific exclusions and reporting arrangements, as appropriate.</p>
<p>Position and organisation</p> <p><i>We have the right profile and structure to deliver to you.</i></p> <ul style="list-style-type: none"> • authority and reporting lines; • organisational structure; and • internal profile and impact on business. 	<p>We have reported our internal audit findings to management and the Audit and Risk Assurance Committee throughout the year.</p> <p>The Internal Audit Partner and the Internal Audit Manager have had the relevant Internal Audit knowledge and experience throughout the year:</p> <ul style="list-style-type: none"> • Internal Audit Partner – Ian Howse • Internal Audit Manager – Clare Edge/Lauren Parsons <p>We have provided four members of internal audit staff to complete the audits during the year:</p> <ul style="list-style-type: none"> • James Powell – Senior Associate • Scott Chester - Senior Associate • Sarah Pascall – Consultant • Meghan Sugrue – Assistant Associate
<p>Process and technology</p> <p><i>We have the right processes and tools to execute our responsibilities.</i></p> <ul style="list-style-type: none"> • risk assessment and planning; • audit execution; • report and follow up; and • technology and tools. 	<p>See above for comments on the Plan and Terms of Reference.</p> <p>All internal audit work has been reviewed by an Internal Audit Manager. All internal audit reports have been reviewed by the Internal Audit Partner. A sample of reports were selected to go through independent quality review procedures.</p> <p>An electronic system has been used to document our internal audit work.</p>
<p>People and knowledge</p> <p><i>We have the right mix of skills and experience to do our job.</i></p> <ul style="list-style-type: none"> • resource management; • performance management; • training and competence; and 	<p>We provided an Internal Audit Partner and an Internal Audit Manager that have professional accounting qualifications and carry out their respective roles at other Welsh public sector organisations.</p> <p>Internal audit reviews were resourced at times convenient with the Future Generations Commissioner for Wales’ staff.</p> <p>All internal audit staff are subject to a performance management process.</p>

<ul style="list-style-type: none"> • knowledge management. 	
<p>Performance and communication</p> <p><i>We monitor how we are doing and manage good relationships with our stakeholders.</i></p> <ul style="list-style-type: none"> • quality assurance; • KPIs and monitoring; • relationship management; and • change management. 	<p>100% of reviews were completed within the budgeted days agreed in the Internal Audit Plan.</p> <p>100% of draft internal audit reports have been issued prior to the designated Audit and Risk Assurance Committee meeting.</p>

Appendix C - Statement of Responsibility

We take responsibility for this report which is prepared on the basis of the limitations set out below.

The matters raised in this report are only those which came to our attention during the course of our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist or all improvements that might be made. Recommendations for improvements should be assessed by you for their full impact before they are implemented. The performance of internal audit work is not and should not be taken as a substitute for management's responsibilities for the application of sound management practices. We emphasise that the responsibility for a sound system of internal controls and the prevention and detection of fraud and other irregularities rests with management and work performed by internal audit should not be relied upon to identify all strengths and weaknesses in internal controls, nor relied upon to identify all circumstances of fraud or irregularity. Auditors, in conducting their work, are required to have regards to the possibility of fraud or irregularities. Even sound systems of internal control can only provide reasonable and not absolute assurance and may not be proof against collusive fraud. Internal audit procedures are designed to focus on areas as identified by management as being of greatest risk and significance and as such we rely on management to provide us full access to their accounting records and transactions for the purposes of our audit work and to ensure the authenticity of these documents. Effective and timely implementation of our recommendations by management is important for the maintenance of a reliable internal control system.

Deloitte LLP
Cardiff
March 2018

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