

Daniel McCrossan, MLA  
Room 254, Parliament Buildings  
Ballymiscaw  
Belfast  
BT4 3XX



**Sent by email only**

27 May 2021

Dear Daniel,

Thank you for the invitation to submit written evidence to inform the review of the governance and accountability arrangements for the Northern Ireland Audit Office and the Northern Ireland Public Services Ombudsman.

The Audit and Risk Assurance Committee (ARAC) is at the heart of the governance arrangements at the Parliamentary and Health Service Ombudsman (PHSO). It is responsible for overseeing the adequacy of PHSO's governance and internal controls and provide assurance to the Ombudsman and the Board. Its' effective operation is central to the effective operation of the whole organisation.

We have addressed each of your requests for information in turn.

### **Appointment and membership of the committee**

The Committee is appointed by the Ombudsman and currently consists of three members. Membership is laid down by our Governance Framework. An extract is attached at Annex 1. Members' biographies, including appointment dates, have been included at Annex 2.

### **The role and remit of the committee**

The Committee's role is to support the Board, specifically the Ombudsman and Chief Executive, as Accounting Officer and Accountable Officer, respectively, advising on the adequacy of the Office's corporate governance and control systems through:

- **offering objective advice on issues concerning the risk, control and governance of the organisation and associated assurances provided by internal and external audit and other processes;**
- **constructively challenging, where and when appropriate, executive decisions to ensure that these are the best possible and achieve value for money in the light of the available evidence; and**
- **adding value by helping the Accounting Officer and Accountable Officer ensure good judgment has been exercised.**



Citygate  
Mosley Street  
Manchester  
M2 3HQ

Enquiries: 0345 015 4033  
Fax: 0300 061 4000  
Email: [phso.enquiries@ombudsman.org.uk](mailto:phso.enquiries@ombudsman.org.uk)  
[www.ombudsman.org.uk](http://www.ombudsman.org.uk)

The Committee's remit and Terms of Reference are set out in our Governance Framework. The relevant extract can be found at Annex 1.

**The role the committee plays/contribution it makes to the governance and accountability arrangements**

The Committee oversees the adequacy of the corporate governance and control systems, ensuring compliance with accounting policies and standards and ensuring systems are in place to achieve value for money.

The Chair's 2020-21 Annual Report can be found at Annex 4. This sets out in detail the activity of the Committee during the year and its contribution to governance arrangements. It is timed to support the preparation of the Annual Resource Accounts, and specifically the Accounting Officer's Governance Statement (the relevant extract can be found at Annex 5).

**A view on whether there is a need to widen/reduce the role or remit of the committee or introduce any further mechanisms to improve governance arrangements/enhance accountability.**

The Committee carries out a Committee Effectiveness Review each year, which feeds into the review of Board Effectiveness. The Review for 2020-21 concluded that the Committee is operating effectively and that the Terms of Reference are appropriate. Improvements that would strengthen the impact of the Committee include ensuring the Committee's agendas are driven by the strategic risk register, and improvements to the assurance framework.

In addition, it concluded that reporting on compliance matters on an exceptional basis and reducing scrutiny of areas of low risk or financial value would enable the Committee to have a more strategic focus, which would enable the Committee to have a greater impact particularly in how we consider the value for money we provide.

The full 2020-21 Committee Effectiveness Review can be found at Annex 3.

**An assessment of the extent to which the committee fulfils a challenge function as opposed to an advisory one (specific examples to illustrate this would be particularly useful).**

The Committee's role is to oversee and advise the Chief Executive, Ombudsman and the Board on the adequacy of the Office's corporate governance and control systems. It executes its responsibilities through a number of mechanisms, all set out in the Terms of Reference.

This includes, but is not limited to, a detailed review of PHSO's resource accounts, which enables the Committee to provide assurance to the Board that appropriate accounting policies are in place and that the accounts are robust; reviewing and challenging the strategic risk register; and receiving regular assurance reviews on matters linked to the strategic risk register. It is important to stress though that we do not see the challenge and advisory role as

mutually exclusive; Committee members can, and do, fulfil both functions when considering items.

A recent example of the Committee doing this is its response to the organisation's proposals for measuring value for money, where the Committee has played a key role in reviewing the proposals, questioning underlying assumptions and suggesting improvements and alternative approaches.

### **Frequency of committee meetings and who is entitled to attend**

The Committee meets quarterly, with two further meetings to review the annual resource accounts and to ratify the Annual Report and Accounts prior to approval by the Board. The following attend the committee (in addition to Committee members):

- **The Ombudsman**
- **Chief Executive Officer**
- **Chief Operating Officer**
- **Director of Resources**
- **Chief of Staff**
- **Governance Officer (minutes)**

Other PHSO executives and senior managers are asked to attend Committee meetings for consideration of specific items relating to their respective areas of responsibility. Other members of staff will also attend to observe, as part of their personal development and to enable a broader understanding of how their work supports the corporate governance of the organisation.

### **Whether minutes of meetings/non-restricted meeting papers are published**

Minutes and papers of the Audit and Risk Assurance Committee are not published.

### **Reporting requirements of the committee**

The Committee reports quarterly to the Board, who receives copies of minutes and a one-page summary of each meeting.

At each Board meeting, the Chair of the Committee provides a strategic update of issues discussed by the Committee.

In addition, the Committee provides the Board, specifically the Accounting Officer and Accountable Officer, with an Annual Report (Annex 4). This is timed to support the preparation of the Annual Report and Resource Accounts, specifically the Governance Statement.

We hope this information is useful in supporting the review of your governance and accountability arrangements. If you require any further information please do not hesitate to contact Maria Mansfeld, Chief of Staff, at [maria.mansfeld@ombudsman.org.uk](mailto:maria.mansfeld@ombudsman.org.uk).

Yours sincerely,

Linda Farrant  
Chair of the Audit and Risk Assurance Committee

Gill Kilpatrick  
Chief Operating Officer

## **2.16 Audit and Risk Assurance Committee Terms of Reference**

### **2.16.1 Purpose**

2.16.1.1 The Audit and Risk Assurance Committee ('the Committee') is constituted as a committee of the Board.

2.16.1.2 The Committee's role is to support the Board, specifically the Ombudsman and Chief Executive, as Accounting Officer and Accountable Officer, respectively, in advising on the adequacy of the Office's corporate governance and control systems through:

- offering objective advice on issues concerning the risk, control and governance of the organisation and associated assurances provided by internal and external audit and other processes;
- constructively challenging, where and when appropriate, executive decisions to ensure that these are the best possible and achieve value for money in the light of the available evidence; and
- adding value by helping the Accounting Officer and Accountable Officer ensure good judgment has been exercised.

### **2.16.2 Responsibilities**

2.16.2.1 Committee will consider and advise the Board, specifically the Accounting Officer and Accountable Officer, on the following matters:

- the Resource Accounts (giving particular consideration to those issues listed at Annex A);
- accounting policies and practice relevant to the organisation (including compliance with required standards);
- corporate governance assurances provided by internal and external audit and other assurance processes (the Committee and its activities shall be included in the Governance Statement), and the extent to which corporate governance is embedded throughout PHSO;
- upholding standards of propriety in PHSO business;
- achievement of value for money;
- the plans of internal and external audit, including assessing priorities and promotion of understanding of the role of audit within PHSO;
- recommending further internal audits as appropriate beyond those agreed and budgeted for in the annual plan;
- the results of audit work, including individual audits, progress, follow-up and annual reports, and management letters;
- the adequacy of management responses to issues raised by internal and external audit; and of compliance with internal audit recommendations;
- the processes for assessing, reporting and owning business risks and their financial implications, including the capability of PHSO's internal reporting system to provide early warning of control failures and emerging risks; the adequacy of PHSO's assurance arrangements;
- the adequacy of systems of quality assurance for PHSO's core activities;
- the appointment of internal auditors;

- the cost and performance of the internal and external audit services;
- the adequacy of PHSO's anti-fraud and bribery policy;
- the adequacy of PHSO's freedom to speak up: raising concerns policy; and
- the adequacy of PHSO's sustainability targets.

2.16.2.2 In order to undertake its duties effectively, the Committee should be provided with the following:

- internal and external audit strategy and plans (including planned co-operation between internal and external auditors);
- progress reports from the Head of Internal Audit on:
  - *work performed since the last meeting (with a comparison against work originally planned)*
  - *update on stage reached in each audit assignment planned*
  - *results of follow-up work on implementation of audit recommendations*
  - *key issues arising from internal audit work in the period*
- PHSO's draft Annual Report and Resource Accounts (including Governance Statement) for assessment;
- the Head of Internal Audit Annual Report and opinion;
- copies of all internal audit published reports for review and consideration;
- appropriate reports from members and attendees on areas covered by the Committee's remit including risk arrangements, quality assurance etc;
- PHSO's Risk Register and Assurance Table;
- the External Audit Management Letter;
- proposals for changes of accounting policies;
- report(s) of any suspected fraud or serious irregularity;
- report(s) of any losses and special payments; and
- report(s) of all contracts awarded and/or appointments made through single tender actions of a value exceeding £3,000.

### 2.16.3 Frequency of Meetings

2.16.3.1 The Committee will meet at least four times a year, to coincide with key points in the annual financial accounting cycle and in the delivery of work from internal audit providers and the NAO.

2.16.3.2 The Committee may exceptionally meet more than four times a year to discuss specific issues, with the agreement of the Chair.

### 2.16.4 Reporting

2.16.4.1 Minutes of committee meetings will be submitted to the next ordinary Board meeting alongside a one-page summary of the meeting.

2.16.4.2 The Committee will provide the Board, specifically the Accounting Officer and Accountable Officer, with an Annual Report. This will be timed to support the preparation of the Annual Report and Resource Accounts, specifically the Governance Statement.

2.16.4.3 Where necessitated, the Committee may wish to raise issues of concern to the Board for its attention. On such occasion, the Committee Chair should agree the most appropriate procedure with the Accounting Officer and Accountable Officer.

## **2.16.5 Access**

2.16.5.1 The appointed Head of Internal Audit and the NAO will have free and confidential access to the Committee Chair.

## **2.16.6 Membership**

2.16.6.1 At least 4 members

- Chair to be NEBM with relevant experience
- The Committee may need to seek further independent, non-executive membership from sources other than the board in order to ensure an appropriate level of skills and experience.
- The Committee should possess the requisite knowledge and skills to effectively engage with and challenge the organisation

## **2.16.7 Appointment to the Committee**

2.16.7.1 The Board will approve the appointments to the Committee.

2.16.7.2 The Chair of the Committee will be appointed by the Board at its first meeting of the financial year. The Committee Chair will be a member of the Board and will hold office as Committee Chair for the following year.

## **2.16.8 Quorum**

2.16.8.1 A minimum of three members of the Committee will be present for the meeting to be quorate. In the event that the meeting is inquorate, the meeting can consider its business but any decisions made or advice to the Board must be ratified by the whole Committee prior to action being taken.

## **2.16.9 Attendance**

2.16.9.1 In attendance at Committee meetings will also usually be:

- The Ombudsman (as Accounting Officer);
- Chief Executive (as Accountable Officer);
- Chief Operating Officer;
- Director and/or Assignment Manager of the External Auditor (NAO); and

- Partner/Director appointed PHSO's Head of Internal Audit and/or Senior Manager (outsourced internal audit provider);
- Chief of Staff

2.16.9.2 Other PHSO executives and senior managers may be asked to attend Committee meetings for consideration of specific items relating to their respective areas of responsibility. This will be agreed with the Committee Chair prior to each meeting.

2.16.9.3 The Committee will be provided with a secretariat function by the Corporate Services Directorate.

#### **2.16.10 Effectiveness reviews**

2.16.10.1 The Committee will review its own effectiveness and report the results to the Board annually.



## Annex A

### 2.16.11 Considerations for the Audit and Risk Assurance Committee in respect of PHSO's Resource Accounts

#### 2.16.11.1 Before the Accounting Officer signs off the Annual Report and Financial Statements, the Committee should scrutinise:

- that the accounting policies in place comply with relevant requirements, particularly the Treasury's Financial Reporting Manual and Accounts Direction;
- that there has been a robust process in preparing the accounts and annual report;
- whether the accounts and annual report have been subjected to sufficient review by management and by the Accounting Officer and/or Board;
- that when new or novel accounting treatments arise, whether appropriate advice on accounting treatment has been taken;
- whether there is an appropriate anti-fraud policy in place, and whether losses are suitably recorded;
- whether suitable processes are in place to ensure accurate financial records are kept;
- whether suitable processes are in place to ensure regularity and propriety is achieved; and
- whether issues raised by the External Auditors have been given appropriate attention.

#### 2.16.11.2 The Committee should satisfy itself that the annual financial statements represent fairly the financial position of the organisation.

#### 2.16.11.3 Before the Accounting Officer signs off the Letter of Representation, the Committee should review it and give particular attention to non-standard issues of representation.

## Annex 2

### PHSO Audit and Risk Assurance Committee - Current membership (May 2021)

**Linda Farrant** joined the Board on 1 February 2020. A CIPFA qualified accountant, Linda has a broad experience of non-executive roles in the public and voluntary sectors covering health, housing, criminal justice, and education. She is currently Deputy Chair of East and North Hertfordshire Clinical Commissioning Group and Chair of the Governance and Audit Committee. She has recently completed two terms on the Board of Ofsted and the Audit and Corporate Governance Committee of the Care Quality Commission. Linda spent much of her executive career in local government working on finance, regeneration policy and practice and developing devolved public services.

**Anu Singh** joined the Board on 13 April 2020. She is a Board level local government and health leader. Former roles include statutory Director of Adult Social Care and Chair of an NHS Integrated Care Trust.

Anu was also Director of Patient and Public Participation and Insight for NHS England, where she made sure that the voices of patients, service users, carers and the public were at the heart of how the NHS worked and was responsible for equalities, health inequalities, person centred care, and the national relationship with the voluntary and community sector. Anu is passionate about service improvement and community empowerment, with experience leading on new relationships with communities for a range of local councils.

**Ram Gidoomal, CBE**, joined the Board on 1 April 2018. Ram is a businessman and entrepreneur who over three decades has used his business acumen to support the work of numerous public and charitable organizations and global and local missions. He is Chairman of Traidcraft plc, Allia and CottonConnect and was formerly the UK Chief Executive of the Inlaks Group. He was a former Crown appointee to the Court and Council of Imperial College London and Non-Executive Director and Complaints Convenor of the Epsom and St Helier NHS Trust. Ram was a Board member at the Food Standards Agency, a member of the Complaints Audit Committee of the UK Border Agency and Chair of the Office of the Independent Adjudicator for Higher Education in England and Wales. Ram is a freeman of the City of London and a Vice President of the Institute of Business Ethics. He was awarded a CBE in 1997 for services to the Asian business community and to race relations.



**Audit and Risk Assurance Committee, 12 May 2021**

**Agenda item no:14**

## **Committee Effectiveness**

**Report of: Gill Kilpatrick, Chief Operating Officer**

**Presented by: Maria Mansfeld, Chief of Staff**

### **Purpose**

To present a report of the outcome of self-assessment conducted by the Committee members and stakeholders for the 2020-21 Committee effectiveness review.

### **Recommendation**

The Committee is asked to consider the following:

- i. The findings of the Committee effectiveness review; and
- ii. To note the timeline for wider Board effectiveness review.

### **1. Introduction**

- 1.1 As part of our overall approach to good governance, each year the Committee undertakes an effectiveness review. This feeds into the overall assessment of our governance arrangements within the Governance Statement.
  - 1.2 The Committee agreed that we should use the same questionnaire-based approach as in 2019-20, with a combination of quantitative and qualitative questions to facilitate longitudinal analysis. The survey was conducted online.
  - 1.3 Views were sought from Committee members, the NAO as external auditors, RSM as internal auditors, the Chief Executive, Chief Operating Officer, Director of Resources, Chief of Staff and the Ombudsman. A full set of responses was received.
  - 1.4 In addition, the Board effectiveness review is currently underway; the findings of which will be presented to the Board in June 2021. The results
-

---

from this Committee's self-assessment will inform the overall conclusions on the effectiveness of the Board.

- 1.5 Following the Committee's review of the findings, an action plan will be developed with the Chair. This will be presented to the Committee at the September meeting.

## **2. Key findings**

- 2.1 The results from the questionnaire are set out at Annex 1.
- 2.2 The self-assessment shows that the Committee continues to evolve and improve. 9 out of 10 respondents 'agreed' or 'strongly agreed' with all questions in the survey.
- 2.3 The strengths of the Committee lie in having experienced members from a range of backgrounds, with a good balance of skills and experience. Significant issues are approached with rigour and precision. There is a good relationship between the Committee and the Executive, with an open culture of enquiry, challenge and support. Papers are of a high standard and the Committee operates flexibly and to time, allowing issues to be explored fully. Governance and Compliance reporting is now fully embedded.
- 2.4 Improvements that would strengthen the impact of the Committee include improved assurance reporting, with a clear focus on risk management and linkage to the strategic risk register. In addition, reporting on compliance matters on an exceptional basis and reducing scrutiny of areas of low risk or financial value would enable the Committee to have greater impact elsewhere, including 'getting under the skin' of Value for Money.
- 2.5 There was a high degree of confidence expressed in the Chairing of the meetings, and a recognition that it would take some time for the incoming Chair to develop relationships with Committee members and the executive. There was some concern that the agenda did not sufficiently indicate which were the key discussion issues.
- 2.6 Respondents expressed a wish for the Committee's Terms of Reference to continue to be reviewed annually, and to include enhanced details of quorum arrangements, as well as a requirement for succession planning and the induction of new members.
- 2.7 The self-assessment indicates that while there is a good interface between the Committee and the Executive, there were some concerns about diary matters.

## **3. Risk implications**

- 3.1 Conducting an annual effectiveness review allows us to identify opportunities to strengthen the impact of the Committee, ensures a focus on continuous improvement and supports good corporate governance.
-

---

#### **4. Resource implications**

4.1 There are no resource implications arising from this report.

#### **5. Equality, diversity and privacy implications**

6. Through its close scrutiny of key PHSO activities and policies, the Committee has an important part to play in ensuring that PHSO is compliant with legal requirements on equality and diversity, and that it delivers on its diversity commitments. Committee members were asked to consider this aspect of their role when considering their answers to the effectiveness review.

#### **Next steps and communications**

6.1 A report of the findings will be prepared for the Board meeting in June 2021. An action plan will be developed and presented to ARAC in September.

#### **Annexes**

1. Summary of Responses to the Committee self-assessment questionnaire

Maria Mansfeld, Chief of Staff

[maria.mansfeld@ombudsman.org.uk](mailto:maria.mansfeld@ombudsman.org.uk)

Tel 0300 061 4267

---

**Audit & Risk Assurance Committee  
Committee Effectiveness Review 2020-21**

Responses to the quantitative questions

		<b>Strongly agree</b>	<b>Agree</b>	<b>Neither agree nor disagree</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
<b>The Committee's agendas cover the right areas</b>	Number	7	3	0	0	0	10
	Percentage	70%	30%	0%	0%	0%	100%
<b>The Committee's meetings are chaired effectively</b>	Number	7	3	0	0	0	10
	Percentage	70%	30%	0%	0%	0%	100%
<b>There is an effective interface between Non-Executive Directors and Executive staff at the Committee</b>	Number	8	2	0	0	0	14
	Percentage	80%	20%	0%	0%	0%	100%

		<b>Strongly agree</b>	<b>Agree</b>	<b>Neither agree nor disagree</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
<b>The Committee achieves its terms of reference</b>	Number	5	4	1	0	0	10
	Percentage	50%	40%	10%	0%	0%	100%
<b>The Committee adds value to corporate governance at PHSO</b>	Number	7	3	0	0	0	10
	Percentage	70%	30%	0%	0%	0%	100%

<b>The Committee adds value to control systems at PHSO</b>	Number	6	4	0	0	0	10
	Percentage	60%	40%	0%	0%	0%	100%
		<b>Strongly agree</b>	<b>Agree</b>	<b>Neither agree nor disagree</b>	<b>Disagree</b>	<b>Strongly disagree</b>	<b>Total</b>
<b>The Committee has an appropriate level of understanding of the purpose of PHSO</b>	Number	6	4	0	0	0	10
	Percentage	60%	40%	0%	0%	0%	100%
<b>The Committee has an appropriate level of understanding of the work of PHSO</b>	Number	5	5	0	0	0	10
	Percentage	50%	50%	0%	0%	0%	100%
<b>Sufficient time is devoted at the Committee to giving PHSO's business proper consideration</b>	Number	5	5	0	0	0	10
	Percentage	50%	50%	0%	0%	0%	100%

**Responses to the qualitative questions**

<p>What are the strengths of the Committee?</p>	<p>Pre-meeting - opportunity to discuss the engagement with the Executive Team, any concerns, risks etc.</p> <p>Governance and Compliance Reporting is now embedded.</p> <p>Information Assurance reports are embedded and risks/opportunities are highlighted and presented along with PHSO’s actions and responses.</p> <p>Good time keeping/ allows opportunities for all to raise questions/thoughts including Internal and External Audit.</p> <p>Comprehensive coverage of assurance controls.</p> <p>Experienced members from wide range of backgrounds, not just accountants. Able to ask probing questions on practicality of policies being implemented</p> <p>Flexible approach to selecting key issues;</p> <p>Open culture of enquiry, challenge and support; Excellent papers and preparation of officers</p> <p>Good balance of skills and experience relevant to both the functions of the ARAC, PHSO and the organisations PHSO interacts with. This helps to bring different perspectives and expertise to the papers and issues being considered.</p> <p>Good relationship between Execs and NEDs. Properly challenging, but also supportive. Really good levels of interest and interaction with different aspects of the organisation.</p> <p>The diversity of the membership and the skills mix allowing critical debate and discussion.</p> <p>Rigour and precision in dealing with significant issues</p>
<p>What areas do you think are still a work in progress?</p>	<p>Change in Chair - whilst not necessary an area to work on, there will be the building of new relationships etc.</p> <p>Assurance reporting - this is an area which has been debated during the year around the linkage with the strategic risk register and objectives and work in planned in quarter 1 to develop the Assurance Framework and Reporting further.</p> <p>Agenda’s need to be driven more by the strategic and corporate risk registers. Compliance reports should move to exception reports only.</p>



	<p>Given the strong risk and control environment of PHSO, pre-meetings with the Auditors before each Committee meeting should be reduced to once per annum at the Committee following the External Audit of the annual report and accounts which would be more proportionate..</p> <p>As part of both the Committee's and organisation's developing maturity, I would suggest the next step is a stronger focus on risk and the overall assurance framework, as well as getting under the skin of value for money.</p> <p>Perhaps still too much scrutiny of areas with low levels of risk or relatively small financial value?</p> <p>Streamlining the calendar dates to minimise the need for changing dates that have been fixed in advance.. This makes diary planning very challenging for committee members.</p> <p>The focus, remit and role of the Committee in relation to risk management could be clearer.</p> <p>When papers are then taken to board, there is nothing more for committee members to contribute - this can seem as though the Board is not engaging whereas they have already been scrutinized</p> <p>Somewhat cumbersome in reaching decisions. Agenda doesn't sufficiently indicate what are the key discussion issues</p>
<p>How do we know if we are being effective in achieving our terms of reference, and adding value to the corporate governance and control systems of PHSO?</p>	<p>Through annual effectiveness review</p> <p>Reporting and escalation through the governance structure - although IA would not have sight of this.</p> <p>End of meeting summary and actions referred to the Board • Management taking clear and timely actions on recommendations presented to Committee, respect ARC that they need to be closed down.</p> <p>A number of sources should come together - the Committee effectiveness review is critical in this, as an opportunity for the Committee and the organisation to step back and consider the role ARAC is playing. This will be supported by ongoing evidence from internal and external audit regarding the strength of the control framework.</p> <p>Annual and quarterly cycles of reporting duly processed in a timely and high impact way. papers shared with enough time to digest, cross reference and hold pre committee dialogue. relevant deep dives flagged and programmed in the forward plan using the appropriate tools such as Risk Register, Information Governance incidents, financial controls.</p>

	<p>Can't recall when the Terms of Reference were last reviewed. They should be an annual item on the Forward Plan.</p> <p>NAO annual scrutiny of performance. Internal audit examination of activities within the purview of ARAC. Board sign off without intervention of ARAC recommendations.</p> <p>The approval of our Annual Report and Accounts by the NAO is a significant indicator that we are being effective in achieving our Terms of Reference.</p> <p>Working to a plan of activities, with regular review of the finances and audit activities. Providing recommendations and suggestions to improve policies and systems and identifying risk issues</p> <p>Outcomes of corporate policies as assessed by independent bodies - NAO, PACAC, internal audit, peer review</p>
<p>How do we know what impact we are having on the PHSO?</p>	<p>In effect, the positive is when nothing goes wrong.</p> <p>Risk, assurance and compliance report highlight any exceptions.</p> <p>Regular report by management on the implementation of management actions through the action tracker.</p> <p>Impact on people re a supporting control environment - from staff survey, attendance at ARAC and feedback from appraisals (note - Internal Audit would not see sight of all of these elements)</p> <p>Governance operated in line with good governance and Nolan principles.</p> <p>Hold Executives to account and regular assurance reporting embedded.</p> <p>Accounts agreed without recommendations. Internal Audit opinion. Board view of control systems.</p> <p>Feedback is key, as is taking a longer term view on how the organisation has developed and matured in the areas within the Committees Terms of Reference.</p> <p>High impactful level of debate and changes agreed at Committee. additional lenses applied to officers' work, and subsequent changes made to PHSO approach.</p> <p>Providing good suggestions on policies to consider value for money, e enquiring how policies will work in practice</p>

	<p>The Board and Accounting Officer are assured by the Committee's reporting after each Committee meeting and seeks the Committee's recommendation before approving the annual report and accounts including the governance statement.</p> <p>The committee receives feedback about its impact on an ongoing basis at our regular ARAC meetings and from Board colleagues at board meetings.</p> <p>By effective measurement in both quantitative and evaluative terms.</p>
<p>What, if anything, needs to be updated in the Terms of Reference?</p>	<p>I am unaware of any specific need for an update.</p> <p>More focus on cyber security plans</p> <p>None identified</p> <p>Nothing that I can think of</p> <p>See earlier comment re (annual review of) Terms of Reference</p> <p>Review of Membership and Quorum arrangements, as well as a requirement for succession planning and induction of new Members</p> <p>The Terms of Reference look fine to me. It would be good to review them regularly - at least once a year.</p> <p>Terms of Reference are comprehensive and appropriate for an ARAC.</p>
<p>With regard to the terms of reference of the Governance framework, are there any other comments you would make?</p>	<p>None identified (5 responses)</p>
<p>How do we know that we have an appropriate level of understanding of the purpose and work of the PHSO?</p>	<p>Various mechanisms including allowance of questioning/debate of agenda items.</p> <p>Via the Risk Register.</p> <p>Deep dives allow discussion and debate - e.g. cyber attacks</p> <p>Appropriate questions asked of the Executive.</p> <p>Background of the members having worked in the healthcare sector and developed knowledge of PHSO. Public sector accounting techniques and reporting expertise. Members of the board, so have sight of business plan and performance</p>

	<p>Committee members challenge of the Executive and Auditors is robust at Committee meetings and similarly their contribution and challenge at Board meetings is appropriate and proportionate.</p> <p>Feedback from the Board, the Executive, and both internal and external audit. The Committee's focus should also align with the strategic risk register.</p> <p>Good correlation with other committees such as Quality. good focus on utility and outcomes at committee discussions. structure of papers brings debate firmly into corporate context. culture of committee exemplifies PHSO values.</p> <p>The committee includes senior executive members who advise and inform us and who we can interrogate and question on matters pertaining to the business of the PHSO. This makes it possible for us to be kept informed of risks and ensure that the purpose and work of the PHSO is being conducted appropriately.</p> <p>If the outturns meet the objectives set in the strategic plan</p>
<p>What are the key skills you bring to the Committee, and what are your impressions of the balance of skills brought by colleagues?</p>	<p>Accounting, risk, governance and performance management skills; skills developed from extensive experience as a non-executive board member. Broad range and balance of skills from Committee member colleagues.</p> <p>As a previous business director of units covering £10-£500m I bring a strong set of analytical skills, and the ability to apply these to wider strategic and cultural issues. I bring a particular interest in organisational change, development and transformation and focus on deliverability of programmes. Skill mix is balanced as many professional disciplines are represented, along with different kinds of business backgrounds.</p> <p>Financial and business, risk skills and background. Good skillset of other colleagues around governance, finance and people</p> <p>I am a businessman and bring and share my business experience in reviewing and discussing the performance of the PHSO. I have also worked in several other Public Boards and bring with me the wide range of experience I have gained over the years. I believe there is a fair balance of skills on the committee proportionate to the size of our organisation.</p> <p>Knowledge of how to run an organisation (governance, risk management, delivery etc.). ARAC has a good balance of skills.</p> <p>Strong understanding of public sector financial management, experience of delivering transformation, strategic leadership. Ability to develop high performing teams.</p>

	Practitioner's strategic and operational perspective
How do we know that individual members are avoiding any conflict of interest?	<p>Via standard agenda items.</p> <p>Potential to present the register on an annual basis or have this readily available at meetings for the Chair's purpose.</p> <p>All conflicts of interest have to be declared at the outset of each meeting and the policy for this is very clear and forms a key part of our induction process.</p> <p>By individuals signing up to requirements of public standards, and by declarations of interest being made (are individuals being cautious and declaring things just in case)</p> <p>By relying on their integrity.</p> <p>Declaration of conflict in the required paperwork. Presumably an annual assurance statement of interest is completed by members as part of the governance arrangements</p> <p>Not sighted on full practices, however there should be a register of interests, a conflict of interest policy, declarations at start of each meeting, and then reliance on individuals as professionals.</p> <p>Register of potential conflicts of interest is maintained plus an agenda item at every meeting seeking any declarations relevant to the agenda.</p> <p>This is regularly checked through declarations and a culture of openness including absencing oneself from potentially conflicting business items.</p> <p>A matter of individual conscience and corporate signalling. if they complete easily accessible and reviewed disclosure forms we should be ok.</p>



## **Audit and Risk Assurance Committee, 12 May 2021**

**Agenda Item No: 13**

### **Audit & Risk Assurance Committee Annual Report 2020-21**

**Report of: Linda Farrant, Chair, Audit & Risk Assurance Committee**

**To note**

#### **1. Executive summary**

- 1.1 The Audit and Risk Assurance Committee ('the Committee') supports the PHSO Board ('the Board'), and in particular the Ombudsman as Accounting Officer, in monitoring the adequacy of the organisation's corporate governance and control systems.
- 1.2 Established as a formal committee of the Board, the Committee adopts recognised good practice by reporting on its work throughout the year and by submitting its meeting minutes for consideration at the next available Board meeting.
- 1.3 As detailed in the Governance Framework the Committee also recognises that it is good practice for it to provide an annual report to the Board and Accounting Officer. This is timed to support the preparation of the annual Resource Accounts, and specifically the Accounting Officer's Governance Statement.

#### **2. Action required**

- 2.1 The Committee is asked to note the report.

#### **3. Key Issues**

##### **3.1 Committee Membership & Attendance**

- 3.1.1 Alan Graham was Chair of the Committee until 28 February 2021 when his term of appointment ended. Linda Farrant was appointed Chair of the Committee on 1 March 2021, having been a member of the Committee since February 2020.
- 3.1.2 As of 1 March 2021, the Committee comprises two other Board members.
- 3.1.3 Ram Gidoomal joined the Committee in April 2018. Anu Singh joined the Committee in April 2020.

3.1.4 Committee members' attendance for meetings during 2020-21 was as follows:

	Meetings in 2020-21					
	07/05/20	25/06/20	07/07/20	16/09/20	26/11/20	17/02/21
Alan Graham	✓	✓	✓	✓	✓	✓
Linda Farrant	✓	✓	✓	✓	✓	✓
Ram Gidoomal	✓	✓	✓	✓	✓	✓
Anu Singh	✓	✓	✓	✓	✓	✓

3.1.5 All Committee meetings in 2020-21, were conducted virtually as a result of government restrictions. Despite the added difficulty of remote working, all matters due to be considered by the Committee were tabled in a timely fashion, or postponed in agreement with the Chair, and the governance framework was observed at all times.

The Ombudsman, as Accounting Officer, attended all Committee meetings during the year except for the technical walkthrough of accounts on 25 June. The Chief Executive, as Accountable Officer, attended all meetings.

3.1.6 Each scheduled Committee meeting was attended by at least one representative from PHSO's outsourced internal audit service provider, RSM, and at least one representative from PHSO's external auditor, the National Audit Office ('the NAO').

3.1.7 PHSO management attended Committee meetings as and when required in order to contribute to the discussion of reports relating to their respective areas of responsibility.

## 3.2 Internal Audit

3.2.1 In 2018-19 the provision of PHSO's internal audit services was outsourced in full to RSM for a three year period from 1 April 2019 until 31 March 2022.

3.2.2 Lisa Randall, a Director at RSM, is PHSO's Client Partner at RSM, which comes with the associated responsibility as PHSO's designated Head of Internal Audit (HIA). The HIA was supported in her role by a senior manager at RSM, who liaised with PHSO's Chief of Staff to manage the contract and the delivery of the audit programme on a day-to-day basis.

3.2.3 The Committee was satisfied that an appropriate level of contract management was maintained throughout the year. This was undertaken in a variety of ways, including:

- Meetings, as required, between the Committee Chair and HIA;
- The appropriate escalation of identified risks and issues in respect of the internal audit programme; and
- Scrutiny and challenge at ARAC meetings by Committee members on the content, timing and delivery of internal audit reports.

### 3.3 Internal Audit 2020-21

3.3.1 The Internal Audit plan for 2020-21 was agreed by ARAC in February 2020.

3.3.2 The Committee considered four internal audit reports as part of the 2020-21 Internal Audit Plan and one internal audit from the 2019-20 Internal Audit Plan. The Casework Quality Review, originally included in the 2020/21 plan was postponed due to the delay in the implementation of the Quality Assurance Framework and replaced with a Cyber Security Audit which is due to be considered in 2021-22. The completed audits are listed below, along with the assurance rating each received:

Audit title	Assurance rating awarded
Employee Engagement and Leadership Development Review	Substantial Assurance
Casework Management System - Project Implementation and Benefits Realisation	Substantial Assurance
Governance Arrangements including Board and Committee Observations	Substantial Assurance
Key Financial Controls - Procurement and Contract Management	Substantial Assurance
Managed Service Post Implementation - Information Security Management Framework	Substantial Assurance

### 3.4 Equality and Diversity

3.4.1 Whilst the Committee's activities during 2020-21, including the topics selected for internal audit and assurance reviews, did not directly involve considerations of equality and diversity, I am satisfied that where appropriate, committee members have sought and received assurance in respect of matters that had equality and diversity implications.

### 3.5 Implementation of Internal Audit recommendations



3.5.1 The Committee has continued to monitor the implementation of the internal audit recommendations with detailed compliance reports submitted each quarter. At the end of the financial year, 15 out of 22 audit recommendations made during the year had been closed.

### **3.6 External Audit and Financial Reporting**

3.6.1 The NAO's Audit in respect of PHSO's 2020-21 Resource Accounts is currently underway. No significant control weaknesses or errors were identified during the interim audit. The Audit Completion Report will be presented to the Committee in July.

### **3.7 Audit & Risk Assurance Committee Effectiveness**

3.7.1 The approach to the ARAC effectiveness review was agreed by the Committee in February 2021. The results will feed into the work of the Board effectiveness review, which will report to the Board in June 2021. An action plan stemming from the Committee Effectiveness Review will be presented to the Committee in September 2021.

### **3.8 Value for Money**

3.8.1 PHSO has led the way in promoting peer review as a tool for assessing value for money in ombudsman schemes. This included the development of a value for money framework. Peer review assessment draws upon both quantitative performance metrics of an organisation and qualitative assessment of the effectiveness and value of ombudsman schemes themselves - as judged by expert panels of fellow ombuds and academics. The Committee has been closely involved in this work and agreed the framework in September 2020. The VFM dashboard will be presented to the Committee twice a year and our approach will evolve further in 2020/21 and future years.

### **3.9 Matters Relevant to the Governance Statement**

3.9.1 PHSO has a comprehensive Governance Framework which sets out the legal framework under which the Ombudsman operates and the organisational arrangements by which the Ombudsman achieves their objectives. In particular it includes:

- standing orders
- terms of reference of the Board and Committees
- descriptions of the frameworks for:
  - risk management
  - Assurance; and
- The Scheme of Delegation

3.9.2 The Committee assures a process of continuous review and improvement of these arrangements. In 2020-21 the Governance Framework was updated to take account of changes in the senior structure.

3.9.3 During the course of 2020-21 ARAC received assurance about compliance with the framework, in particular via the following routes:

- an updated assurance table
- consideration of the register of policies
- receipt of the quarterly assurance report

### **3.10 Risk Management**

3.10.1 Risk Management continues to be a core part of ARAC's responsibility and is central to providing assurance to the Accounting Officer and the Board that PHSO has robust policies and procedures in place to effectively capture, monitor and report on its risks.

3.10.2 The Committee commissioned deep dives on areas of key risks during the year that covered:

- Managing Cyber Security
- COVID 19
- Litigation risk
- Response to the Sunburst Ransomware attack

### **3.11 Fraud Prevention and Management**

3.11.1 The Committee receives a regular report on fraud issues and financial errors. There were no fraud issues reported in 2020-21.

### **3.12 Information & Data**

3.12.1 The Committee receives Information Governance compliance reports quarterly, which provide key performance indicator statistics for compliance with access to information provisions under the relevant legislation.

### **3.13 Procurement**

3.13.1 The Committee gains assurance that PHSO's procurement activity is compliant with the Procurement Code through regular compliance reports. It is proposed that this will move to reporting on an exceptional basis in future.

### **3.14 Audit Committee Assurance Statement and Opinion**

3.14.1 The Committee's Assurance Statement and Opinion is informed by the assessments it has received from RSM and the NAO.

3.14.2 In accordance with paragraph 6.5 of HM Treasury's Audit and Risk Assurance Committee Handbook (March 2016), the Committee has reached the following opinions on the adequacy and effectiveness of the PHSO's arrangements for:

- **Risk Management, Control and Governance**

The Committee has taken assurance from the compliance and risk reports and assurance reviews received by the Committee during the course of the year. The Committee is satisfied that there are adequate and effective risk management controls and governance processes in place to manage the achievement of the organisations objectives.

- **Financial Reporting**

The Committee will be undertaking a technical walk-through of the 2020-21 Resource Accounts on 3 June 2021 to assure itself that the accounting policies adopted for the preparation of the 2020-21 Accounts are appropriate for the organisation and that the financial systems are operating effectively. The technical walkthrough of the Accounts 2020-21 will provide detailed background information on both the preparation and focus of the Accounts.

- **Internal and External Audit**

The Committee can confirm that it is satisfied with the completeness, reliability and integrity of the assurance it has received from the NAO, as external auditors, and RSM, as the internal auditors. The Committee is content that they have fulfilled their duties in respect of monitoring the effectiveness of PHSO's controls, and that their assurances are sufficiently comprehensive to meet the organisation's needs.

### 3.15 Overall Opinion of the Chair

3.15.1 It is my view that the Committee has operated in accordance with its terms of reference, pursuing the appropriate issues of risk assurance, governance, internal control and resilience of resources; and that its challenge and scrutiny has been robust.

3.15.2 The Committee is of the opinion, based on the work it has undertaken during the year, that the Accounting Officer can be fully satisfied that the overall control framework, governance, risk management and assurance arrangements are appropriate to his needs and those of the organisation.

3.15.3 The Committee would like to thank the Chief Operating Officer and all of her team for the comprehensive and responsive way in which they have continued to support the Committee despite the hugely challenging circumstances of the past year.

.....

**Linda Farrant**  
**Chair - Audit & Risk Assurance Committee**

# Governance statement

## Introduction

## Statutory Position

### Governance Structure

As Parliamentary and Health Service Ombudsman, in statute and by warrant of Her Majesty, I am responsible for the sound governance and effective internal control of the Ombudsman service. In law the Parliamentary and Health Service Ombudsman is a corporation sole and has a personal jurisdiction. This is not consistent with requirements of good governance. Therefore, I am the Chair of a unitary Board which is in place to improve the governance of the organisation. My executive responsibilities, as a corporation sole, are thus exercised personally as an individual but also aided by means of defined and corporate arrangements that allow for proper scrutiny. As Chair of the Board I promote collective decision-making. I reserve the right, given my statutory role, to depart from the Board's decisions but only in exceptional circumstances and with a commitment to put my reasons in writing. I did not exercise this right in 2020-21.

I have a statutory responsibility for individual cases but have given authority for case activity to officers in a written delegation scheme. I act personally in complex cases and where we identify serious or repeated mistakes that may have system-wide relevance. To ensure that this extensive casework is managed within a defined system of appropriate oversight, I have a detailed scheme of casework delegated authority and have appointed three Deputy Ombuds: the Chief Executive, the Director of Legal and Quality and, with effect from 11 May 2020, the Director of Operations. The Board scrutinises overall performance of casework, but not individual cases.

As Accounting Officer, I am accountable to Parliament for the stewardship of our resources. I have delegated executive responsibility to the Chief Executive for effective financial control arrangements as Accountable Officer. This is a contractual responsibility and allows me to have a separate accountable person charged with stewardship and probity for our use of public money.

I discharge my responsibility through assurance from the Accountable Officer and the Executive Team, and through assurance and challenge by the Board, the Audit and Risk Assurance Committee, the Quality Committee and the Remuneration and Nominations Committee.

PHSO’s Board and Committee structures are shown in the table below.

Role	Committee	Reports to PHSO Board
Oversees the adequacy of the corporate governance and control systems, ensuring compliance with accounting policies and standards and ensuring systems are in place to achieve value for money	<b>Audit and Risk Assurance Committee</b> 4 Non-executive members (3 from March 2021) Met 6 times in 2020-21 with one informal meeting dedicated to the review of the Resource Accounts	
Oversees assurance on the arrangements for assessment of quality, covering casework decisions, process and the experience of people using our service	<b>Quality Committee</b>  4 Non-Executive Members (3 from March 2021) Met 4 times in 2020-21	
Agrees pay and performance review arrangements for the CEO and Chief Operating Officer (COO). It supports the Ombudsman and Chief Executive with recruitment of senior executives and non-executive Board members	<b>Remuneration and Nominations Committee</b>  4 Non-Executive Members  Met once in 2020-21	
Oversees operational performance and considers issues affecting delivery, monitors outcomes against objectives and agrees in-year allocation and utilisation of resources	<b>Executive</b>  CEO, COO, 4 Directors, and Chief of Staff Met 32 times in 2020-21, including 12 ad hoc meetings in response to the COVID-19 pandemic	

**Board role:**  
Collective decision making on strategic direction and performance

Ombudsman, 9 Non-Executive and 3 Executive Members (8 Non-Executives from 3 March 2021; 2 Executive Members from June 2020)

Met 7 times in 2020/21

Terms of Reference for the Board and each Committee have clarity and accountability allowing Board members to make decisions, monitor performance and manage resources and risk. An observer programme, open to all staff, ensures visibility and transparency of the decision-making processes of the Board.

## Highlights of the activities of the Committees

The Committees of the Board fulfil their responsibilities by receiving and considering reports. The key areas considered by the Committees are set out below.

### Audit and Risk Assurance Committee (ARAC)

**Chair:** Alan Graham, MBE/ Linda Farrant from 1 March 2021

#### Highlights of Committee Reports

In 2020-21, all meetings of ARAC were conducted virtually as a result of the pandemic. In order to oversee the adequacy of governance and internal controls, ARAC reviewed and were assured of the following:

- Financial Management, including financial performance and compliance with the Finance Code and Procurement Code.
- Assessment of controls put in place to prevent fraud. The Committee also approved an updated Fraud Prevention, Anti Bribery and Corruption Policy
- Information Assurance performance and compliance with the General Data Protection Regulations.
- Value for Money: Consideration of how the impact of the organisation's activity could be measured.
- Governance Framework: consideration of compliance with the Governance Framework, which enabled ARAC to provide assurance to the Board on good governance, with a focus on internal controls.
- External audit: consideration of the scope and findings of the National Audit Office's risk-based plan.
- Internal audit:
  - Consideration of the scope of the internal audit plan to ensure that it was appropriate and focussed on appropriate risks;
  - Having an overview of the maturing relationship between the organisation and the auditors;
  - Consideration of five internal audit reports (one of which was completed in 2019-20), all of which recorded substantial assurance, and a follow up report;
  - Monitoring the implementation of the auditors' recommendations.
- Assurance reviews: Four in-depth examinations of specific areas of activity identified as presenting a potential risk to PHSO, including the organisation's business continuity arrangements in response to the COVID-19 pandemic.

To ensure compliance with accounting standards ARAC held a detailed walkthrough of the draft Resource Accounts, which enabled them to assure the Board that appropriate accounting policies were in place and that the accounts were robust.

At the beginning of the year, the Comptroller and Auditor General provided an unqualified opinion of the 2019-20 accounts, with no recommendations issued.