Audit Committee

4 June 2014

Aviation House, Room 802

Minutes

# Present

John Roberts CBE – Chairman Ofsted Board Member

Andy Palmer Ofsted Board Member

Linda Farrant Ofsted Board Member

Sir Michael Wilshaw HMCI and Accounting Officer (item 3 to 5 only)

Matthew Coffey Chief Operating Officer

Nick Jackson Director, Corporate Services

Louise Grainger Divisional Manager, Finance

Jacqui Smillie External Audit (National Audit Office)

Simon Jones External Audit (National Audit Office)

Morag Childs Internal Audit (Deloitte)

Martin Lewis Internal Audit (Deloitte)

Saba Pooni Audit & Governance Manager (Secretariat)

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

* 1. John Roberts opened the meeting and welcomed members. There were no declarations of interest.
	2. Members accepted the minutes as an accurate record of the Audit Committee meeting held on 1 May 2014.

# Report from Chair and Members

* 1. No comments were recorded.

# Audited Annual Report and Accounts

* 1. Jacqui Smillie introduced the Audit Completion Report (including proposed letter of representation) on the 2013-14 financial statement audit. Members noted the majority of the audit work had been completed with the following areas which remain outstanding:
* Review of final draft Annual Report and Accounts;
* National Audit Office (NAO) internal quality control procedures;
* Confirmation of post balance sheet events;
	1. Members noted the following risks that were raised in the Audit Planning Report, however no significant issues or concerns were noted:
* Risk of fraud from management override of controls; and
* Risk of fraud in revenue recognition
	1. The Committee noted and agreed, that subject to Ofsted Board approval, the letter of representation should to be signed by the Accounting Officer.
	2. Members noted that the NAO will recommend to the Comptroller and Auditor General that he should certify the 2013-14 financial statements with an unqualified audit opinion, without modification, providing the above outstanding matters are satisfactorily resolved.
	3. Members thanked the NAO for their audit work.

# 3a Update on Value for Money Study

* 1. Jacqui Smillie provided an oral update on two value for money studies being carried out by the NAO, in relation to the work of Ofsted. The first is intervention support for schools where field work is currently on-going and the final report will be published in the autumn. A meeting has been setup with HMCI in July to talk through the key findings of this study.
	2. The second is a cross government study of inspectorates reviewing the different types of inspectorates and methods that are being used. A meeting will be setup with HMCI to discuss the scope. This study is to be finalised and published in early 2015.

# 2013-14 Annual Report and Accounts

* 1. Members noted the following amendments to the Annual Report and Accounts:
* Add proposed amendments to Governance Statement, Strategic Report and Remuneration Report;
* HMCI is content with introduction
* Page 46, Para 171 – update Salary Morgan’s salary details, marked xxxx
* Page 69, Para 262 expenses audit – add context
* Page 112 – Members of Audit Committee are appointed for a term of two years (not one year)
	1. The Committee agreed that subject to the changes above, they endorsed the 2013-14 Annual Report and Accounts report and recommended it to the Ofsted Board for approval.
	2. The Committee thanked all staff involved in the process for their great work in producing the Annual Report and Accounts in accordance with the timetable.

# Annual Internal Audit Report & Opinion

* 1. Members noted a minor update to the annual internal audit report and opinion and agreed as final.
	2. To summarise, the Committee noted the following:
* Reviewed and endorsed the 2013-14 Annual Report and Accounts;
* Endorsed the NAO's Audit Completion report;
* Endorsed the Letter of Representation for HMCI to sign;
* Endorsed Deloitte's Annual Internal Audit Report and Opinion; and
* Agreed for the Committee's Annual Report to be sent to Ofsted Board.
	1. Members thanked Deloitte for their work in producing the final annual report.

# Internal Audit update

* 1. Morag Childs summarised the progress in delivering the 2013-14 internal audit plan and reported that since the last Committee meeting all outstanding 2013-14 audits have been completed.
	2. The 2014-15 internal audit plan was presented and approved at the 13 March 2014 Committee meeting. Deloitte have commenced planning for audits due to start in Quarter 1 of 2014-15. These include:
* Future of Inspections and Future Operating Model Programme;
* Management Information; and
* Regional Governance and Risk Management.
	1. Members noted the completion of the 2013-14 internal audit plan and commencement of audits in 2014-15 audit plan. They stressed again the importance of meeting targets for the completion, discussion and management response to audit reports in 2014-15.

# Issued Internal Audit reports

* 1. Martin Lewis reported that internal audit had completed and issued final reports for the following audits as part of the 2013-14 Internal Audit plan:

# Budgeting and Planning;

* Business Expenses;
* Procure to Pay; and
* Follow-up
	1. Budgeting and Planning - the audit opinion was provided as 'full assurance' and as a result of this audit, one low priority recommendation was made to improve processes and to strengthen the control environment. Members thanked staff involved for an excellent outcome.
	2. Business Expenses - The objective of this audit was to assess the key risks and associated controls relating to compliance with Ofsted’s business expenses policy and procedure and use of the business expense system (BES). The audit opinion was provided as 'low assurance'. The governance and control arrangements established regarding expenses, particularly those through corporate contracts were found to be weak with significant levels of non-compliance identified. Members noted that work has begun to update the BES policy and a workshop scheduled to develop clear roles and responsibilities within Finance, Human Resources and the Procurement teams. The recommendations are on track to be completed within deadlines agreed. The Chair expressed members concern about the result of the audit and said that he would want to comment on this at the next meeting of the Ofsted Board. The Committee asked that, in the light of clearer instructions on expenses rules, if individuals were found to fail repeatedly to adhere to them, the Executive Board should seriously consider the imposition of some form of individual sanction.
	3. Procure to Pay - The objective of this assignment was to provide an independent assessment on the design and operating effectiveness of controls established for Ofsted’s P2P process. The audit opinion was provided as 'partial assurance'. As a result of this audit, four medium and one low priority recommendation were made to improve processes and to strengthen the control environment. Members noted the audit recommendations are on track to be completed within agreed deadlines and acknowledged that controls had strengthened as a result of the introduction of P2P.
	4. Follow up - The scope of this audit was limited to high and medium priority management actions agreed with Ofsted during 2013-14 that were due for implementation by 31 March 2014. In addition, Deloitte followed up on the current implementation status of high and medium priority management actions agreed with Ofsted during 2012-13 which had a due date before 31 March 2014. Members noted 11 out of 14 medium / high priority actions that were due to be implemented by 31 March 2014 were fully implemented; and three actions had been partially implemented.

# Progress against Audit Recommendations Report

* 1. Members noted the progress made up to April 2014 in addressing audit findings and noted the eight recommendations that had passed their original completion dates.

# Strategic Risk Report

* 1. Matthew Coffey updated members on current position of the strategic risk report, providing a detailed update on the current position.
	2. Members noted the strategic risk report for April 2014.

# Operational Performance Report

* 1. Matthew Coffey introduced the operational performance report for April 2014. Members noted the audit recommendations section where Matthew Coffey will be introducing internal reviewers from our talent pool, to train them to carry out thorough internal reviews of each of the recommendations.
	2. Members noted the operational performance report for April 2014.

# Quarterly Contract Monitoring report

* 1. The Committee noted an update on Ofsted’s contracting activity during the period 1 January 2014 to 31 March 2014, focussing on contracts of major concern to the organisation for its operation and delivery.
	2. Members noted the unsatisfactory performance of an ISP and that Nick Jackson is in dialogue with the provider to understand and deal with the issues.
	3. Members noted the use of the specialist contractor pool and requested that this is monitored in terms of value for money.

# Any other business

* 1. The next Audit Committee meeting will take place at 10.30 on Thursday 4 September 2014, in Aviation House room 802.