



Subject	Audit Committee's Annual Report 2015		
Status	Open		
Purpose	For Note		
From	The Audit Committee		
History	Parent Committee	First Submitted	Revision Number
	N/A		1

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### 1. Purpose

To report to the Board the Committee's activities during 2015 to 31 March 2016.

### For Note

### 2. Terms of Reference

The Committee will submit an annual report to the Board on its work.

### 3. Open

### 4. Contribution to the Board's Purpose and Objectives

The Audit Committee assists the Board in delivering its purpose and objectives by ensuring that the organisation has an effective system of internal control, which gives the Board an assurance that the organisation is operating effectively.

The Audit Committee's role is to assist the Board in fulfilling its oversight responsibilities for governance, risk management, internal audit and internal controls, external audit and financial reporting, and mitigating the risk of fraud.

### 5. Audit Committee Annual Report for 2015 to March 2016

#### Executive Summary

- The Audit Committee benefitted from a stable and experienced membership during this period, as all four members had at least three years' experience of the ARB Audit Committee.
- The Committee membership substantially changed with effect from 1 April 2016 because three of the four members left the ARB Board. The Board appointed Suzanne McCarthy as Chair of the Audit Committee in March 2016 by write-round and the Board will make a decision on the other members of the Committee at its May 2016 meeting. The terms of reference now allow the Committee to co-opt external members for the maximum of a year, if the need arises. In addition, induction training for the new Audit Committee members will be scheduled before their first Audit Committee meeting.

- In May 2015, the Board approved external auditors, Crowe Clark Whitehill, for a period of two years to 31 March 2017. The external auditors confirmed that the Audit of the 2015 Annual Report and financial statements was well planned and organised with supporting schedules and reports being produced by management on time. They also confirmed to the Audit Committee that there were no issues, unadjusted errors and no material matters arising from the audit and as a result, they intended to give a clean audit opinion.
- At its meeting held on 17 March 2016, the Audit Committee reviewed the disclosures made in the various statements and reports included in the 2015 Annual Report and the Financial Statements, together with the draft letter of representation, and concluded that there were no matters which the Audit Committee needed to bring to the attention of the Board.
- There were four internal audit reviews and an advisory review carried out by Mazars (internal auditors) during 2015. Three audits received a substantial assurance rating (Freedom of Information, Equality and Diversity and Corporate Governance). The fourth audit was a Financial Policies and Procedures audit which received an adequate assurance rating as a result of two priority 2 ratings. Management has subsequently undertaken appropriate follow up work to implement the recommendations in all areas.
- The opinion given in Mazars 2015 Internal Audit Report was substantially the same as that given in the 2014 report as follows:
- “On the basis of our audit work, we consider that ARB’s governance, risk management and internal control arrangements are generally adequate and effective.”

## 6. Key Points

### i. Meetings, Committee membership and meeting attendees

The Committee membership has remained unchanged since April 2013 as follows:

Myra Kinghorn (Chair),  
Ruth Brennan  
Ros Levenson  
Andrew Mortimer

The Committee met three times during 2015 (March, July and November). There were two meetings up to 31 March 2016; a risk appetite session in January in 2016 and a full Committee meeting in March 2016.

Mazars, the internal auditors, attended all appropriate agenda items at the Committee meetings in 2015 (with the exception of the discussions on the auditors’ performance and the re-tendering of internal audit services.). The Board’s external auditors, Crowe Clark Whitehall LLP, attended the meetings held in March 2015 and March 2016.

A representative from the Department of Communities and Local Government’s Finance Department also attended all of the Committee’s meetings in 2015 and also the March 2016 meeting.

The Committee considered its terms of reference twice in 2015 and the Board approved amendments to them at its meeting on 11 February 2016. The next Audit Committee review of the terms of reference is scheduled for March 2017. As in prior years, the Committee reviewed its activities against the terms of reference during 2015 to 31 March 2016. As part of this review the Committee also considered and discussed the outcomes of the Board and Committee effectiveness surveys.

### ii. **Work of the Audit Committee**

The work of the Committee during 2015 included internal audits of Freedom of Information, Equality and Diversity, Corporate Governance and Financial Policies and Procedures. An advisory review of the organisations' Stakeholder Engagement arrangements was also undertaken. As in previous years, the Committee also agreed to the follow up testing of all internal audit recommendations considered by management to be complete.

In addition to the above internal audits, the Committee reviewed and considered the planning and the outcome of the external auditors work on the draft 2015 Annual Report and Financial Statements and the successful outcome of the following management's reviews on:

- A review against the organisations commitment to transparency
- Compliance with the Architects Act. [An internal review of the statutory functions laid out in the legislation and how the organisation delivers those functions.]
- Compliance with the DCLG/ARB Framework Agreement.
- Compliance with the General Rules made by the Board
- The organisation's whistleblowing policy

The Committee considered ARB's Risk Register at each meeting and the discussions included: a review of the current risk landscape; any new risks; changes to the risk profile of previously identified risks together with a horizon scan of potential future risks.

During 2015, and also at the March 2016 meeting, specific consideration and discussions took place in relation to the increasing operational and resource risks associated with the on-going Periodic Review and the increase in demand of ARB's services. The Risk Register is also a key guide in the Committee's decision- making regarding its future work plans.

The Committee also discussed with management, a report on the organisation's feedback mechanisms. The Committee was able to provide constructive feedback in areas of accessibility, approach and reporting. It was agreed that a report on feedback be provided to the Board annually.

During 2015 the Committee continued to review the Board members' Code of Practice. This work is on-going, as clarification is being sought from the DCLG on the Cabinet Office Code and its relationship to ARB's Board Member Code of Practice. The Committee will make any recommendations for change to the Board in due course.

iii. **Regular Reporting to the Board and the ARB Chair**

The Committee provided detailed feedback to the Board through its draft minutes and, as appropriate, oral updates at Board meetings by the Audit Committee Chair. Throughout 2015, the Committee continued to alert the Board to any new or increased risks facing the organisation, and it worked closely with the management team to oversee that the risks were managed appropriately. The level of risk the organisation faced during 2015 was heightened due to staff vacancies, the lack of a permanent Registrar (during the first half of 2015), the on-going Periodic Review, and an increase in day- to- day demand for ARB's services, including an unprecedented rise in the number of applicants wishing to join the Register.

The Committee considered these risks at each meeting, and between meetings the Committee Chair liaised directly with the Chair of the Board and the Registrar. Continued vigilance will be required in 2016 to review the capacity and resilience of the organisation. The Committee noted that increased resources may be needed to implement any recommendations arising from the Periodic Review, and at the same time additional resources needed to deliver the growing demands of core statutory functions and a challenging business plan.

iv. **External audit of the Annual Report and 2015 Financial Statements**

Prior to the start of the external audit, the Committee agreed the scope for the 2015 annual external audit. At the March 2016 meeting of the Committee, the external auditors presented the report on the progress of the 2015 audit, their review of the draft Annual Report and Financial Statements for the year ended 31 December 2015, together with the proposed letter of representation to be approved by the Board.

In line with best practice, the Committee had the opportunity to discuss any issues, or areas of concern without the presence of the management team at the March 2016 meeting. The external auditors commented that the 2015 audit had, once again, gone well and that the schedules and papers had been well planned, well prepared and produced on time. They commended the team for producing the Performance Report so speedily after being advised by the external auditors that this report was required for the 2015 Annual Report. The external auditors commented that ARB had an effective team with appropriate skills and that the team had assisted the external audit team in a proactive and timely way.

There were no recommended audit adjustments, no restrictions placed on the audit and no particular matters that the external auditors wished to bring to the attention of the Committee.

v. **Outcome of 2015 Internal Audit reviews**

The Committee has a rolling programme of reviews to ensure ARB's compliance with the relevant legislation, and the effectiveness of ARB's internal control and risk management system. The results of the 2015 reviews were positive with a substantial assurance rating for the following three areas reviewed by Mazars:

- Freedom of Information - six priority 3 (housekeeping) recommendations
- Equality and Diversity - two priority 3 (housekeeping) recommendations
- Corporate Governance - four priority 3 (housekeeping) recommendations

The Financial Policies and Procedures review received an 'adequate assurance' rating on completion of the internal audit with the following recommendations:

- Two priority 2 (Significant)
- Seven priority 3 (Housekeeping)

The Committee considered Mazars Annual Opinion on the 2015 internal audits at its March 2016 meeting which stated that:

*'On the basis of our audit work, we consider that ARB's governance, risk management and internal control arrangements are generally adequate and effective to manage the achievements of its objectives .....*'

Whilst this was a clean internal audit report, the Committee would have expected a more positive opinion on the system of internal controls on the basis of the positive results summarised above. This would be followed up with Mazars. In addition, the external auditors confirmed at the March 2016 meeting that this opinion did not give rise to any concerns from their perspective.

vi. **Follow up testing of previous years' Internal Audit recommendations**

As part of the Committee's on-going oversight, management is required to provide the Committee with an update on the timely progress of any outstanding recommendations made by the internal auditors at each Committee meeting. In 2015 Mazars re-tested the implementation of the completed recommendations.

At the March 2016 meeting, Mazars reported their findings on the 2015 re-testing. Of the 27 items tested, 22 had been agreed as complete and the agreed implementation date of one item had not reached. In relation to the other four incomplete items set out in the Report, one had been signed off, two would be carried forward into another exercise with the new internal auditors and a careful review of the last item found that there was no further information which could be published.

The recommendations of the 2015 internal audits were added to the control table, and updates would be given to the Committee at each subsequent meeting.

vii. **Business Continuity Planning Internal Audit**

The initial internal audit took place in 2012, and the Committee acknowledged, at that time, that this was an on-going area of development for the organisation and as a result, progress updates have been provided to the Committee at each meeting. The disaster recovery testing exercise undertaken by management in late 2014 had resulted in some fine-tuning of the disaster recovery arrangements and plan. This testing included restoring the most significant systems offsite and also testing the prolonged absence of the Interim Registrar. A further desk-based exercise was undertaken by management in March 2016. During this exercise the management group dealt with threats and challenges of a flu pandemic. This identified a series of improvements that could be made to the Business Continuity Plan. Progress on actions identified will be brought back to the Committee in the coming months.

viii. **Review of the effectiveness of the external and internal auditors**

The Committee annually reviews the effectiveness of the internal and external auditors, to ensure that the level of service, advice, input and value for money being offered remains satisfactory. The Committee reviewed both providers during 2015 and again at the March 2016 meeting in the case of the external auditors. The Committee concluded that it remained content with the service and the additional “value added” services Crowe Clarke Whitehill provide.

During 2015, in line with agreed timelines, the Committee tendered for internal audit services, resulting in the appointment of Grant Thornton from the beginning of 2016.

ix. **Looking Forward**

The Committee discussed with management, the priorities and risks for 2016 and beyond. A programme of internal audits has been agreed for 2016 but this would need to remain flexible to adapt the plan in light of the on-going Periodic Review. The Committee is intent on ensuring that ARB’s human and financial resources are utilised appropriately and proportionately, allowing the Committee to continue to give the Board an assurance that the organisation operates an effective system of internal control, and has the ability to function effectively whilst delivering value for money.

As the outcome and any recommendations of Phase 2 of the Periodic Review become known later in 2016, the Committee will consider its implications, and identify, if appropriate, ways in which those implications can be supported through the Committee’s work.

## **7. Resource Implications**

The Committee used its allocated financial resources for 2015. £18,720 was paid to Mazars a LLP for their work on internal audits and reviews as specified within this report. A further £22,692 (incl. VAT) was paid to Crowe Clark Whitehill LLP for its work on the external audit and other accountancy advice during 2015.

**8. Risk Implications**

Risks are identified within the report.

**9. Communication**

The Audit Committee prepares an annual report for the Board to assist the Board in carrying out its oversight responsibilities. The annual report also gives the Board an opportunity to explore the Audit Committee's work and identify any areas of concern.

**10. Equality and Diversity Implications**

Whilst the production of this Annual Report has no specific E&D implications, the specific work of the Committee takes into consideration the E&D implications during the formation and delivery of that work.