



Subject **Audit Committee's Annual Report (1 April 2016 to 31 March 2017)**
Purpose **For Note**
From **Audit Committee**

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1. Summary

To note the Audit Committee's (the Committee's) Annual Report to the Board

2. Open Session

3. Contribution to the Board's Purpose and Objectives

The 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 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.

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4. Key Points

i. Meetings, Committee membership and meeting attendees

During the reporting period the Committee membership has been as follows

Suzanne McCarthy (Chair)

Ros Levenson

Sue Roaf

Jason Bill

Myra Kinghorn (co-opted from 1 April – 31 July 2016)

Carol Bernstein (with effect from 1 August 2016)

The Committee met three times during 2016 (March, June and October). There were two meetings up to 31 March 2017 in January and March.

Grant Thornton, the Internal Auditors, attended all appropriate agenda items at the Committee meetings in 2016 (with the exception of the discussions on the auditors' performance). Grant Thornton provided the Committee with an overview on the roles and responsibilities of an audit committee as part of the induction training for new Committee members.

The Board's External Auditors, Crowe Clark Whitehill LLP, attended the meetings

held in March 2016 and March 2017. They also provided an overview session before the January Committee meeting on the topic of risk assurance and the value of an effective risk register.

A programme of briefing sessions is being planned for 2017 with the Internal and External auditors to assist the Committee in discharging its responsibilities.

A representative from the Department of Communities and Local Government's Finance Department also attended some of the Committee's meetings in 2016.

The Committee considered its terms of reference in October 2015, and the Board approved amendments to them at its meeting on 11 February 2016. The Committee also reviewed its terms of reference in March 2017. Some minor amendments to the Committee's terms of reference have been recommended to the Board for consideration at its May meeting. As in prior years, the Committee reviewed its activities against the terms of reference during 2016 to ensure it had fulfilled its responsibilities.

ii. **Work of the Audit Committee**

The work of the Committee during 2016 included internal audits of Human Resources, Cyber Security and Investment Management. 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 Auditor's work on the draft 2016 Annual Report and Financial Statements and the successful outcome of the management's reviews on:

- Compliance with the DCLG/ARB Framework Agreement; and
- Compliance with the Scheme of Decision Making.

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; and
- a horizon scan of potential future risks.

During 2016, 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 continues to play a key role in guiding the Committee's decision-making regarding its future work plans. At the Committee's March 2017 meeting it agreed a revised Risk Register structure. The revised format will be presented to the Board at its July meeting.

The Committee also discussed with management the annual 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 as part of the Communications Annual Report.

During 2016 the Committee continued to review the Board Members' Code of Practice. This work is now complete and recommendations will be presented to the Board in due course.

At its June meeting the Committee received the annual report on the organisation's Business Continuity Planning (BCP). Annual testing of elements of the BCP now take place and this years is scheduled for 31 May 2017.

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 2016, 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 operational risk the organisation faced during 2016 was heightened due to an ongoing increase in demand for the organisation's services. In November 2016 the Board agreed to increase the permanent staff headcount as a way of mitigating some of the risk surrounding capacity.

The Committee considered resource as a risk at each meeting. Continued vigilance will be required in 2017 to review the capacity and resilience of the organisation.

iv. **External audit of the Annual Report and 2016 Financial Statements**

Prior to the start of the external audit, the Committee agreed the scope for the 2016 annual external audit. At the March 2017 meeting of the Committee, the External Auditors presented the report on the progress of the 2016 audit, their review of the draft Annual Report and Financial Statements for the year ended 31 December 2016, 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 2017 meeting. The External Auditors confirmed they experienced no problem whilst carrying out the 2016 audit and that the Executive had assisted throughout the process.

v. **Outcome of 2016 Internal Audit reviews**

The Committee has a rolling programme of reviews to ensure ARB's compliance with relevant legislation and the effectiveness of ARB's internal control and risk management system. The results of the 2016 reviews were positive with moderate ratings for each of the reviews undertaken by Grant Thornton A breakdown of the recommendations in each area can be found below:

- Human Resources – one 'medium', three 'low' and one 'improvement' findings
- Cyber Security – seven 'medium', one 'low' and two 'improvement' findings

- Investment Management - one 'medium', two 'low' and one 'improvement' findings.

At the start of 2017, Grant Thornton presented their annual opinion based on their view of the adequacy and effectiveness of corporate governance, risk management and internal controls in place to mitigate business risks within ARB. Grant Thornton issued a 'moderate' rating based upon the areas reviewed as part of the audit plan approved by the Committee. Information on how Grant Thornton evaluate ratings is attached at [Annex A](#).

vi. **Introduction of 'Deep Dives'**

At the Committee's October meeting it agreed to introduce a programme of 'deep dives' into areas of the organisation's key functions. The first 'deep dive', which focussed on Registration, started in January 2017 and continued into March 2017. The executive presented to the Committee on the risks associated with the registration processes, the mitigating actions taken and the plans in place to further reduce risk and impact.

The presentations focussed on several key risks:

- Granting registration in error;
- Denying registration in error;
- Delays in processing;
- Retention fee payments; and
- Succession planning.

The Committee found the information provided helpful and looks forward to receiving 'deep dive' presentations across all the functions of the organisation over time.

vii. **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 2016, Grant Thornton re-tested the implementation of the completed recommendations.

At the January 2017 meeting, Grant Thornton reported their findings on the 2016 re-testing. The Committee noted that 15 of the 18 recommendations outstanding were complete, with three further recommendations in progress. Grant Thornton checked on progress and confirmed that in respect of all the recommendations some action was taken by Management to address the recommendations.

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 the performance of the External Auditors in March 2016. The Committee concluded that it remained content with the service and the additional "value added" services Crowe Clarke Whitehill provides. The Committee did, however, agree in line with set timelines that the Committee would tender for external audit services in 2017.

At its March 2017 meeting, the Committee considered the performance of the Internal Auditors, Grant Thornton, who had been in post for just over a year. The Committee concluded that it remained content with the service and additional “value added” service Grant Thornton provides.

ix. **Looking Forward**

The Committee discussed with management the priorities and risks for 2017 and beyond. A programme of internal audits has been agreed for 2017, but this would need to remain flexible in light of the on-going Periodic Review and the implications of the UK leaving the European Union. Internal audits will be undertaken in the following areas: procurement, scheme of decision making and insurance arrangements.

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 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 2017, the Committee will consider its implications and identify, if appropriate, ways in which those implications can be supported through the Committee’s work.

5. Resource Implications

The Committee used its allocated financial resources for 2016. £23,736 was paid to Grant Thornton for their work on internal audits and reviews as specified within this report. A further £21,168 was paid to Crowe Clark Whitehill LLP for its work on the external audit and other accountancy advice during 2016/2017.

6. Risk Implications

Risks are identified within the report.

7. Communication

The 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 Committee’s work and identify any areas of concern.

8. Equality and Diversity Implications

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

9. Further Actions

None.