

Minutes of Audit and Risk Assurance Committee Meeting Held on 22 April 2020

Location	Present	In Attendance
Held via Video Conference	John Beckerleg (Chair) Mark Bottomley Chris Wood	Karen Holmes (Registrar) Marc Stoner (Head of Finance and Resources) Tim Redwood (Crowe LLP) Paul Rao (Grant Thornton) Andrea Flores (Grant Thornton) Kristen Hewett (minutes)

Note Action

1 Apologies

No apologies were received.

2 Declarations/Conflicts of Interests

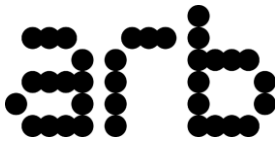
No were no conflicts relevant to the agenda items.

3 Minutes

The minutes of the Audit and Risk Assurance Meeting held on 6 April 2020 were approved.

4 Matters Arising

The Committee Chair queried with Mr Redwood of Crowe LLP (Crowe) what steps Crowe was taking in terms of addressing the concerns around the depth and scope of external audit, as highlighted in the Kingman report. Mr Redwood replied to say that the Kingman report more concerned the Financial Reporting Council as a regulator. However, the Bryden review, a subsequent report on the quality and depth of audit which was produced not long after the Kingman report, recommended that there should be a separate external audit profession. The Bryden report made recommendations around fee setting, the audit partner should not negotiate fees, and that the number of hours spent should be published on any audit report. Mr Redwood confirmed that ARB had always had a two audit partner approach, with both partners having a good knowledge of ARB. Mr Redwood further confirmed that there was a transparency report for Crowe, available online, and that Crowe arranged for regular internal quality reviews, carried out by the Institute of Chartered Accountants.



Secondly, the Committee Chair asked Mr Redwood to expand on the point of materiality, specifically that net assets were being used rather than annual turnover, and the Chair was keen to understand why. Mr Redwood explained that this was because the most dominant number in the balance sheet was investments. He indicated that Crowe used a variety of different measures for materiality.

The Committee Chair highlighted the Committee's review of ARB's fraud policies, due in July. This was important as the Audit and Risk Assurance Committee would need to be satisfied as a Committee that suitable policies are in place.

The Committee noted the matters arising report.

5 **2019 Audited Financial Statements and Governance Report**

This item was introduced by the Registrar who explained that the 2019 accountability and governance report had been stripped back and re-built using the Government Financial Reporting Manual (FRM) checklist. In preparing the revised report, the Executive had reviewed several other regulatory bodies which had prepared similar styles of report. The Registrar further report that the clearance meeting with Crowe LLP had covered the accounts and other required items, but also work carried out and work planned for around COVID-19.

The Committee Chair welcomed the streamlining of the report, but highlighted that it was important that that all requirements under the FRM checklist were covered.

The Registrar highlighted that usual practice would be for the Audit and Risk Assurance Committee's annual report to be finalised at the April meeting, ready to present to the May Board meeting in order to provide the Board with assurance when it approved sign off of the audited accounts. This had not been achievable for this meeting, but Committee members were directed to agenda item 8, which pulled together the work undertaken by the Committee in 2019/2020. It was agreed that the formal Committee Annual Report should be drafted and circulated to Committee members, ready for presenting to the Board alongside the audited accounts and governance statement.

ACTION: The Executive to draft the Audit and Risk Assurance Committee Annual Report and circulate to the Committee, with a view to presenting the report at the May Board meeting, alongside the audited accounts.



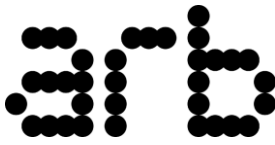
The following points were queried:

- A Committee member asked the Registrar to comment on the two 'red' items as identified in the performance report, and whether performance might be improved in the areas identified. The Registrar clarified that the first red item related to UK notifications to the European Commission; the second was concerning the scrutiny of qualifications. It was clarified that performance in both areas had been hindered by external pressures and third parties failing to provide information in a timely manner. The Chair of the Committee commended the good performance reflected in the other KPIs.
- A Committee member queried the information contained under the 'environmental matters' heading (page 28 of the meeting pack) and the reduction in paper use, but the increase in cost of printing and stationery as demonstrated in the accounts. The Registrar clarified that while Board and Committee meetings had now moved to paperless working, work across the organisation as a whole had increased. It was felt that this could be clarified in the governance statement.
- It was queried whether the level of legal fees in relation to overall expenditure was a reasonable amount compared with other regulators. The Board's internal auditor, Mr Rao, commented that the level of legal fees was unsurprising as legal fee spend was generally high for any conduct regulator, particularly when regulation of title was included. Mr Rao further explained that some comparable organisations carried out legal work in house, so while legal costs might appear lower for other organisations, there would in turn be a higher staff cost.

The Chair of the Committee highlighted a section at page 8 of the Governance Statement concerning the Audit and Risk Assurance Committee being responsible for the monitoring of Equality and Diversity. It was requested that this be reviewed, as oversight of Equality and Diversity monitoring was not within the Committee's Terms of Reference.

ACTION: 'Environmental Matters' section to be reviewed to see if wording around paper use can be made clearer.

ACTION: The Executive to reconsider wording of Governance Statement around the monitoring of Equality and Diversity.



The Board's External Auditor, Mr Redwood of Crowe LLP proceeded to address the Committee on the external audit report. As in previous years, the external audit had run very smoothly with the audit team having been provided with all of the required information to complete their work.

Mr Redwood confirmed that he had nothing to particularly refer the Committee's attention to in section one of his report which concerned compliance points.

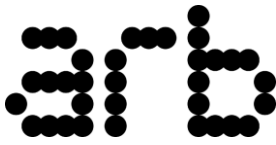
With regards to the remaining sections, Mr Redwood highlighted the following:

Section two of Crowe's report set out the approach and findings in areas of the business which were deemed to be considerable risk. One area highlighted by Mr Redwood was the Professional Conduct Committee cases, as legal fees were a substantial expenditure for the organisation, and it was important that such fees were being reported in the correct period.

Clarification was provided around the section concerning fixed assets, particularly the development of IT systems some of which would be carried out by consultants employed to maintain and support systems. The audit team was required to ensure they were content with the level of costs capitalised in the financial statements. This area had also been worked through with the Head of Finance and Resources in previous years and the audit team were satisfied that the approach being adopted by ARB was consistent and in line with FReM requirements.

With regards to management controls, Mr Redwood confirmed this was an area which had to be assumed to be of significant risk, regardless of the organisation. Reference was made to page three of Crowe's report, which listed some of the larger estimates and judgments.

Section two of the report (pages 4 and 5) included considerations around whether ARB was a 'going concern'. It was noted that the covering paper to the audited accounts already included some key considerations as presented by the Executive, and that the meeting papers also included a financial analysis for various financial scenarios which might occur as a result of COVID-19. It was commented that ARB was in a good position because retention fees had already been collected and there was a good cash and investment position at the year end. However, it was flagged that a key area of identified risk was around retention fee payments for 2021 and variations in numbers on the Register, which would impact on retention fee income. The financial modelling provided with the papers demonstrated that even in the worst case, the model demonstrated a 30% drop in register numbers, a figure which could



be absorbed.

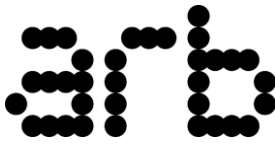
Mr Redwood highlighted that from an audit perspective, the key judgement had to be whether there was material uncertainty, and whether disclosures around the impact of COVID-19 were adequate, that the level of disclosure should be balanced with the risk involved. He flagged that that things were moving very quickly in respect of COVID-19, and a final review of what was being said should be carried out before anything was signed to ensure nothing had become outdated, as the Report would cover the period up until the date of signature.

Mr Redwood then moved onto section three of his report, which set out the audit approach and findings around the accuracy in areas of significant value ; one such area being registration and retention fees. It was highlighted that this area of work was made easier compared to other regulators as ARB received retention fees in one limited window, around the year end. Mr Redwood confirmed that there were no identified issues in respect of payroll or Board/Committee remuneration, and that all tested samples had been properly authorised.

Mr Redwood highlighted to the Committee that high reliance was being placed on ARB's Investment Manager's reports. The Investment Management Company had provided an Internal Controls Report to provide assurance, but this was only produced every three years and was last produced in 2018, although it was noted that this was not unusual for smaller investment managers.

Mr Redwood invited questions from the Committee and the following questions were asked and answered:

- A Committee member queried the figure of profit, around £600,000 annually, and whether that figure was deemed reasonable. It was commented that it was obviously sensible to be in a profitable position but queried the tipping point at which the reserves level might raise concern with registrants. Mr Redwood replied that the level of reserves can be traced back to the organisation's reserves policy, which included a required closure reserve. While ARB was not trying to produce a surplus, it needed to ensure that the operational reserve was at the right level. The Charity Commission has some guidance available on reserves policies and resilience, although given the current situation around COVID-19, it would not be the right time to start thinking of drastically reducing the level of reserves. It was highlighted that ultimately it would be for ARB policy to determine where the level of reserves should sit.



- The Committee Chair queried what would be reported to the Board in respect of the COVID-19 pandemic and the going concern point. The Registrar confirmed that it was not intended to provide any further information than had been presented to the Committee. The covering paper as presented to the Committee on the 'going concern' point would be updated as necessary, and then presented to the Board in order to provide assurance.

The Chair then made a specific query around the area of fraud and sought input from the Executive and the internal and external auditors as to whether there was anything the Committee should be made aware of. The Registrar and the Head of Finance and Resources confirmed that they were unaware of any fraudulent or potentially fraudulent activity. Mr Rao of Grant Thornton and Mr Redwood of Crowe LLP also confirmed that to their knowledge, there was nothing that the Committee needed to be made aware of.

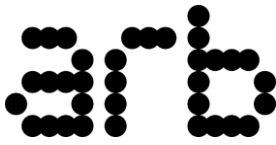
The Committee Chair ended the item by thanking the Executive and auditors for the work carried out, and that on the basis of the papers before it and its discussions the Committee was content to recommend the accounts to the Board for approval.

6 Risk Management

Risk Registers

This item was presented by the Registrar who confirmed that the Committee had met at the beginning of April and had considered the first draft of the newly developed COVID-19 Risk Register, which had in turn been presented to the Board. The following updates were provided:

- The organisation Risk Register had been updated to include target dates against each of the identified actions. Where a previously identified action had been completed, it had been moved to the 'mitigation' heading.
- An updated EU Exit Risk Register was included for the Committee to note.
- The COVID-19 and organisation Risk Registers had been aligned in terms of scoring and risk appetite, although the Executive had not gone so far as to deconstruct the organisation Risk Register to take account of the current COVID-19 situation.
- With regard to the COVID-19 Risk Register, the Registrar provided assurance that the Executive were beginning to think about ARB operationally when lockdown measures were eased, but were working on the assumption that social distancing measures would remain for some time.



The Committee was asked to consider whether an additional item should be included within the organisation risk register in respect of a number of the identified areas of risk coming to fruition at once, for example the UK's exit from the EU and outcomes from the Hackitt review. It was highlighted that these were ongoing risks, and that there had been recent indications from the Ministry of Housing, Communities and Local Government of wanting to move at pace, which in turn might bring a risk around capacity; particularly if the current COVID-19 was ongoing. The Committee suggested that there should be a conversation at Board level concerning what was deliverable and how stakeholder expectations might be managed if several work streams were expected to be progressed at once.

A Committee member queried whether, given the current working from home regime, there might be a heightened risk around cyber security. The Registrar confirmed that ARB used two factor authentication to access its IT systems, and that systems were as secure as if the staff team were working in the office. While there would always be more work to carry out around cyber security, this was not seen as an immediate risk, as significant infrastructure projects had already been implemented to enable the staff team to safely work remotely.

Risk Assurance Mapping

The Registrar reported that there was no update to provide to the Committee in respect of the Risk Assurance Mapping exercise but assured the Committee that work on this would commence once capacity allowed.

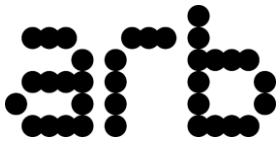
Risk Appetite

With regards risk appetite, the Registrar commented that this had been included on the meeting agenda as the Committee had indicated that it wished to keep discussions alive as to where appetite might have changed.

The Committee Chair commented that he had nothing further to add to what had already been reported.

7 Internal Audit

The Committee Chair invited Mr Rao to provide an update. Mr Rao reported that it had been agreed that Business Continuity Planning should be the first audit carried out in 2020, and this should remain the case despite the current pandemic situation, as much of the work will be document based.



The Committee discussed whether it remained appropriate to audit the suitability of the Business Continuity Plan when it was something that had essentially been live tested with the current COVID-19 situation. It was ultimately agreed that there are other facets to ARB's Business Continuity Plan, so it would still benefit from testing.

The Registrar queried whether the Committee would like to consider an amendment to the 2020 internal audit plan, to incorporate an audit on the Scheme of Delegation; this was suggested in the light of the current situation, with all staff and the Board working remotely. The Registrar confirmed that there were no current concerns around adhering to the Board's current Scheme of Delegation; but that the situation might alter the longer any lockdown period goes on. It had therefore been suggested by Mr Rao as a potential area of risk.

The Committee agreed to keep this in mind when considering updates on internal audits throughout the year.

Outstanding Recommendations

The paper was presented by the Registrar who reported that, while there had been some progress on the internal audit outstanding recommendations, we had not moved the recommendations forward as much as we would have liked.

The Committee noted the report on the outstanding recommendations from internal audits.

Mr Rao, Ms Flores and Mr Redwood left the meeting at this point.

Internal Audit Tender

The Registrar presented the paper and invited any questions from the Committee.

A Committee member queried why the service was being tendered. The Registrar confirmed that it was simply because the contract had reached its five-year maximum term, which policy dictated should be the maximum contract term before re-tendering. The Registrar confirmed that there were no concerns around the level of service provided by Grant Thornton, which remained of a high level.

The Committee confirmed that it was happy to recommend to the Board an exceptional extension to Grant Thornton's contract, taking the contract end date to January 2022.



Note

Action

ACTION: A paper recommending the extension of Grant Thornton's contract should be put to the Board at its meeting scheduled for 14 May 2020.

8 Annual Report

This was discussed under agenda item 5.

9 AOB

There was no other business raised.

10 Dates of Future Meetings

31 July 2020

9 November 2020