



Board Meeting 14/05/2015
Agenda item 12

Subject	Audit Committee's Draft Annual Report 2014		
Status	Open		
Purpose	For Note		
From	Audit Committee		
History	Parent Committee	First Submitted	Revision Number
	Audit Committee		1

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1. Purpose

To report to the Board the Committee's activities during 2014 to 31 March 2015.

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 a climate of procedural 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. The following matters should be considered by the Board in this regard.

5. Audit Committee Annual Report for 2014 to March 2015.

Executive Summary

- The Audit Committee benefitted from a stable and experienced membership during this period, as all four members had at least two years' experience of Audit Committee membership.
- The Board will however need to plan to mitigate the risks arising from the loss of three of the four existing members with effect from 31 March 2016 when their terms of office expires.
- The Audit of the 2014 Annual Report and financial statements was well planned by the external auditors and well supported by management. There were no issues or material matters arising from audit of the 2014 financial statements,

which needed to be brought to the attention of the Board. The Audit Committee (in a separate paper) recommends that Crowe Clark Whitehill be appointed for a further two years to 31 March 2017.

- There were a four internal audit reviews carried out by Mazars during 2014. Three audits received a substantial assurance rating (risk management strategy, budget setting and monitoring and payroll and expenses). The fourth audit was an IT health check which received a limited assurance rating as a result of two priority 1 and two priority 2 ratings. Management has subsequently undertaken appropriate follow up work to strengthen the controls and one priority 1 has been reclassified as a priority 2, whilst management (supported by the Audit Committee) has not accepted the other priority 1 recommendation.
- The Audit Committee received the 2014 Internal Audit Report at its March 2015 meeting which concluded 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.”
- The Audit Committee wishes to draw to the Board’s attention to the serious operational and resources risks related to the uncertainties caused by the on-going Periodic Review.

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 2014- March, July and November and has also met in March 2015.

Mazars, the internal auditor, attended all the Committee meetings in 2014 and in March 2015 (with the exception of when the Committee discusses the auditors’ performance). The Board’s external auditors, Crowe Clark Whitehall LLP, attended the meetings held in March 2014 and March 2015.

A representative from the Department of Communities and Local Government, Finance Department also attended the meetings in July and November 2014 and also March 2015.

In March 2015, the Committee considered its terms of reference, and reviewed its activities during 2014 against them. The Committee concluded that it had fulfilled its terms of reference and that it did not need to propose to the Board any changes to its terms of reference. As part of this review the Committee also considered and discussed the outcomes of the Board and Committee effectiveness surveys.

The Committee members considered that their level of knowledge on audit related matters within the Committee had grown considerably, in particular the ability to read complex reports and to understand the risks involved. The Audit Committee risk appetite session held in 2013 had proved very useful and would probably be considered again in a later meeting in 2015.

Whilst it is beneficial in the short term for the Committee membership to remain unchanged for a third successive year in 2015, there remains a significant risk as a result of the loss of three existing Committee members in March 2016 when their term of office expires. The terms of reference allows for the co-option of a member (in particular with financial skills and experience) to the Committee. This may be one solution to adopt towards the end of 2015 or early 2016. The Committee are alert to this and will be discussing it further at their next meeting. Following on from the 2013 effectiveness survey, the Committee had increased the meeting time in 2014 and 2015 for certain meetings with substantial agendas to enable matters to be discussed more fully. Other improvements made include the content and presentation of papers and more analysis of press coverage and greater explanation of government focus which was distributed to all Board members.

ii. **Work of the Audit Committee**

The work of the Committee during 2014 included a compliance review of the processes and procedures of the complaints handling systems and also internal audits on risk management, Information Technology and financial controls relating to budget setting and monitoring and the payroll and expenses systems. 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 and compliance audits, the Committee dealt with all aspects of the external auditors work on the 2014 annual report and financial statements and the successful outcome of management's reviews on:

- the third party providers used
- compliance against the Architects Act. [An internal review of the statutory functions laid out in the legislation and how the organisation delivers those functions.]
- compliance against the DCLG/ARB Framework Agreement.

The Committee considered ARB's Risk Register at each meeting. The current risk landscape, including new risks and changes to the risk profile of previously identified risks, was discussed with ARB's management, along with a horizon scan of potential future risks. During 2014, and also at the March 2015 meeting, specific consideration and discussion took place in relation to the increasing operational and resource risks associated with the on-going Periodic Review, which were of concern to the Committee. 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, amendments to the organisations handling of service standards complaints. The Committee was able

to provide constructive feedback in areas of accessibility and approach. It was agreed that a report on service level complaints be provided to the Board annually.

Towards the end of 2014 the Committee started to review the Board members Code of Conduct. This work is on-going and the Committee will make any change recommendations 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 minutes and, as appropriate, oral updates at Board meetings by the Audit Committee Chair of significant issues arising from its meetings.

Throughout 2014 the Committee continued to alert the Board to the risks facing the organisation, and worked closely with the management team to oversee that risk was managed appropriately. The level of risk the organisation faced during 2014 was heightened due to higher than normal staff turnover, including the loss of the Registrar at the beginning of 2014, the Periodic Review, and an increase in day to day demand for ARB's services.

The Committee considered these risks at each meeting, and between meetings the Committee Chair liaised directly with the Chair of the Board and the Interim Registrar. Continued vigilance will be required in 2015, surrounding the on-going risks of the Periodic Review, particularly in relation to attracting and retaining staff.

iv. **External audit of the Annual Report and 2014 Financial Statements**

The Committee agreed the scope for the 2014 annual external audit of the annual report and financial statements, as recommended by the external auditors.

Particular emphasis was given to ensuring that the audit covered key elements of the Board's business, and that it provided the Committee and the Board with the appropriate assurances in relation its system of internal controls, including risk management.

At the March 2015 meeting of the Committee, the external auditors presented the report on the progress of the 2014 audit, the annual report and financial statements for the year ended 31 December 2014, 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 2015 meeting. The Audit Partner reported that members of staff were appropriately skilled, well organised and had assisted fully with the external auditors in a positive and timely way. There were no recommended audit adjustments and no particular matters that the external auditors wished to bring to the attention of the Committee.

v. **Outcome of 2014 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 2014 reviews were positive (substantial assurance) in the following three areas reviewed by Mazars.

- Risk Management Framework -three priority 3 (housekeeping) recommendations
- Budget Setting and Monitoring-two priority 3(housekeeping) recommendations
- Payroll and Expenses-one priority 3(housekeeping) recommendations

The Information Technology Health Check received a 'limited assurance ' rating on completion of the internal audit with the following recommendations:

- Two priority 1 (Fundamental)
- Two priority 2 (Significant)
- Six priority 3 (Housekeeping)

The Committee discussed the report in detail and queried the levels of priority given to some of the recommendations, as the Committee considered the levels did not reflect a proportionate appetite to risks surrounding IT development and progression, taking into consideration the environment in which ARB operated. There are now no outstanding priority 1 recommendations, as one has been reclassified to a priority 2 following the management testing of the Business Continuity Plan, and the other has been removed as management disagreed with the recommendation (to include a longer notice period for the IT contractor) as it created greater risks for the organisation and there were other arrangements in place.

The Committee requested an update on progress to be provided by Mazars. A progress report was provided shortly after the November meeting, which confirmed that out of the 10 recommendations, 1 had been fully implemented and the remaining 9 were in progress and had not yet reached the implementation target date. The management team further updated the Committee in March 2015 on progress.

The Committee considered Mazars Annual opinion on the 2014 internal audits at its March 2015. 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.....'*

The Opinion also referred to the two priority recommendations which were discussed above.

vi. **Compliance Review - Complaints Handling**

The Committee agreed, after consultation with the Investigations Committee Chair, to appoint Russell Cooke Solicitors, to undertake a compliance review of the cases referred to the Professional Conduct Committee. Careful consideration was given to issues concerning any conflicts of interest. In advance of the review, clarification and assurance was received from Russell Cooke as to who would undertake the review, the way in which any perceived conflicts would be managed.

The Investigations Oversight Committee (IOC), who had a significant interest in

the findings of the report, has also discussed the report. The Chair of the IOC joined the Committee when the findings of the review were discussed at the July 2014 Committee meeting. A number of the areas highlighted in the review, by way of improvements to the processes and procedures have been fed in to the DCLG's review of Complaints Handling, as part of the Periodic Review.

The Committee and the Investigations Oversight Committee will continue to review progress of the recommendations regularly.

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

As mentioned above, as part of the Committee's on-going oversight, management is required to provide the Committee with an update of any outstanding recommendations made by the internal auditors at each Committee meeting. Mazars re-tests the implementation of the completed recommendations.

At the March 2015 meeting, Mazars reported their findings on the 2014 retesting exercise in the areas of registration, professional standards, risk assurance and finance, corporate governance and business continuity planning and also the prescription process. In total, 29 recommendations were re-tested, 21 of which Mazars agreed were complete. The remaining eight were classified as in progress, with further work required to fully complete the original recommendation.

The Committee will continue to review the outstanding re-tested recommendations and the remaining untested recommendations (which were incomplete at the time of re-testing) at each meeting. The recommendations of the 2014 internal audits were added to the control table, and updates will be given to the Committee at each subsequent meeting

viii. **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 Committee welcomed a significant disaster recovery testing exercise by management in late 2014, which 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. Further work in this area will continue in 2015 and the Committee has requested an annual report on this area.

ix. **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 2014 and again at the March 2015 meeting and concluded that it remained content that both firms of auditors were meeting the required level of ARB's expectation.

There are a number of staff related issues to be followed up with Mazars in 2015 following a significant change in personnel at the start of 2014. The Committee continued to monitor the impact of the change throughout 2014, with the Chair of the Committee working closely with the Interim Registrar to ensure that Mazars continued to provide a good level of service and robust challenge.

x. **Looking Forward**

The Committee has discussed with management, the priorities and risks for 2015 and beyond. A programme of internal audits has been agreed for 2015. Areas identified for review in 2015 include a review of the organisation's procedures for dealing with Freedom of Information requests and a review of the organisations commitment to Equality and Diversity. The Committee remains alert to the changing needs of the organisation, especially 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 in a climate of effective internal control, and has the ability to function effectively whilst delivering value for money.

As the outcome of Phase 2 of the Periodic Review becomes known later in 2015, 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 2014. £15,252 was paid to Mazars a LLP for their work on internal audits and reviews as specified within this report (please note, due to the timings of the work undertaken, costs will be spread over 2013 and 2014). A further £30,193 (incl. VAT) was paid to Crowe Clark Whitehill LLP for its work on the external audit and other accountancy advice during 2014.

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.