

## Minutes of the Audit Committee Meeting Held on 20 October 2016

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Location	Present	In Attendance
8 Weymouth Street London W1W 5BU	Suzanne McCarthy, Chair Carol Bernstein Jason Bill Ros Levenson Sue Roaf	Karen Holmes, Registrar Marc Stoner, Head of Finance and Resources Emma Matthews, Head of Qualifications and Governance Flora Njoku, Department for Communities and Local Government Paul Rao, Grant Thornton James Anderson, Grant Thornton

### Draft – Approved by Chair

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#### 1. Apologies

There were no apologies. The Chair welcomed Carol Bernstein to the Committee.

#### 2. Minutes

The Committee noted that the phrasing on page 3 of the Minutes, under Item 6 (Internal Audit Reports/Review of Outstanding Recommendations) which referred to Item 4.1, should be reviewed to make the position clearer.

Subject to the above adjustment being made, the Minutes of the meeting held on 10 June 2016 were approved and confirmed as an accurate record of that meeting.

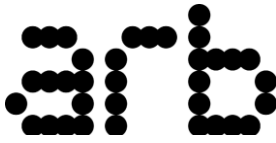
**Action Point: The Head of Qualifications and Governance should adjust the minutes under Item 6.**

#### 3. Matters Arising

The Chair provided an update in relation to the action points and matters arising from the last meeting.

The Committee noted the following key points:

- Item 6 on the agenda would cover the action point relating to the Board Members' Code;
- The resource mapping exercise had been dealt with at the last Board meeting under the item relating to risk;
- It was proving extremely difficult to address the internal auditors' recommendations in relation to Equality and Diversity and to gain any



meaningful information through the inter-regulatory group. It was agreed that if it continued to be difficult to obtain information in order to address the auditors' recommendation in this area, the Committee should discuss the recommendation again at its next meeting and find a way forward.

- 'Tracking' recommendations with regard to their historical development were now being summarised rather than presented in full within the papers;
- All the action points relating to the Internal Audit Plan 2016 had been completed with the exception of the point relating to the 2017 scopes, which would be taken forward as the scopes became available;
- The Staff team was continuing to look at ways to improve the response rates when gathering feedback from users of ARB's services; and
- Dates for 2017 had been provided to Committee members.

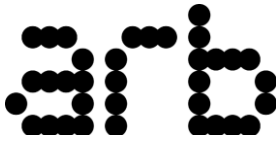
**Action Point: If it continued to be difficult to obtain information in order to address the auditors' recommendation regarding Equality and Diversity, the item should be added to the Committee's next agenda for further discussion.**

#### 4. Risk Register/Risk Review/Risk Management Strategy

It was noted that the Risk Register had last been reviewed by the Board at its meeting of 14 July 2016. A paper which included an update on the high level risks and identified any new risks which the organisation was facing had been additionally provided to the Board at its meeting of 15 September 2016.

The Committee's attention was drawn in particular to risk 2.2, which referred to the major changes to the membership of the Board that would occur in April 2017. It was noted that three experienced Board members, including the Chair of the Board and Chair of the Prescription and Remuneration Committees, would complete their full tenures on 31 March 2017. It was also noted that two additional Board members were subject to re-appointment for a second term, and, if their re-appointments were not confirmed, those Board members would also need to leave the Board on 31 March 2017. The Committee recognised that the membership of the Prescription Committee would be significantly impacted by the changes due to the loss of knowledge and experience. It was also noted that the Chair of the Board was currently undertaking the annual Board member appraisals and would be looking at succession planning as part of that exercise. There was, however, a risk that the relevant skills/experience needed to populate and lead the Prescription Committee would not be available from within the Board from April 2017 and that other alternatives, e.g., making an external appointment; co-opting a previous member of the Committee back on to the Committee etc., for an interim period, may need to be considered. It was noted that the Operational Management Group and the Chair would also be looking at the options available and how succession planning could best be managed.

One member of the Committee queried whether risks 4.9 and 5.3, which were concerned with non-compliance with HM Treasury review of tax arrangements of public sector appointees and fraud causing reputational damage or resource risk



respectively, should continue to be included in the Risk Register. It was noted that the Operational Management Group considered that these were ongoing issues which would always be of concern to the organisation. It was confirmed that the controls and actions should continue to mitigate the risks involved.

It was also mentioned that the Risk Register was in the process of being redesigned, and that the issue of whether ongoing, long term risks should be included within the Risk Register would be taken into consideration as part of that review.

It was also suggested that the Risk Register should include additional details which contextualised and quantified the risks. Further clarifications could also be added such as the risk owner to highlight who was ultimately accountable for each risk area, and some of the risk classifications could be reassessed to ensure that they continued to accurately reflect the likelihood and impact of a risk occurring.

**Action Point: It was agreed that the Operational Management Group should consider the suggestions made at the meeting as recorded in the minutes as part of its review of the future structure and content of the Risk Register.**

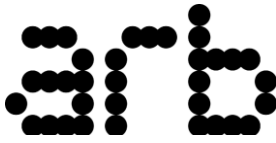
Members of the Committee agreed that it would be helpful to receive a briefing on how other small organisations dealt with their risk registers, current best practice and how other organisations implemented their risk registers.

**Action Point: It was agreed that the Registrar would look into arranging a briefing session regarding the development, use and implementation of risk registers in other organisations similar to the ARB. (See item 8 also)**

A member of the Committee queried the lack of progress regarding the publication of the Periodic Review report, and whether the risks caused by the continued delays had been highlighted to the Department for Communities and Local Government (DCLG). The Registrar confirmed that the DCLG's attention had regularly been drawn to the risks and that there was a clear audit trail showing this. .

The Committee considered the Risk Management Strategy and noted that it had last been reviewed in February 2016. As the Committee had the opportunity of reviewing the Risk Management Strategy on an annual basis and it had only recently been reviewed, the Committee agreed that it did not wish to make any changes to make to the Strategy at this time.

One member of the Committee queried whether anything was known about the impact that the EU Referendum result would have on ARB. It was confirmed that very little was known at this point, but where information had been requested by Government from the ARB the Executive had responded in a timely way to the relevant Department. It was confirmed that as soon as anything further was known, this would be relayed to Board members. The Committee was also reminded that Staff had highlighted areas of the 2017 Business Plan and the Priorities 2017-2020 which could potentially be impacted by the UK's exit from the European Union.



## 5. Internal Audit

### a. New Reports and Recommendations

#### i. Investments Internal Audit

Paul Rao introduced the outcomes of the Investments Internal Audit, which had been given a moderate rating overall. He confirmed that a number of strong practices had been identified, and that there was one medium priority and several lower level recommendations for ARB to take forward to mitigate risks in this area. It was noted that the internal auditors had identified that additional scrutiny and challenge over the Board's Investment Broker would lower risks in this area.

The Internal Auditors suggested ways in which the Board could improve its oversight and challenge of the Investment Broker, including asking the Broker to provide more context to the updates/reports provided and by developing in-house expertise. After discussion, the Committee agreed that the most expedient way to achieve the latter would be to upskill the Head of Finance and Resources in this area as this would assist them in being able to discuss matters more fully with the Investment Broker and bring relevant issues to the Board's attention.

The Committee noted that a tender exercise for the Board's Investment Broker would be undertaken once the Board had further discussed its recently amended investment policy.

The Head of Finance and Resources confirmed that the Internal Auditors had raised valid issues and the management response had been prepared accordingly.

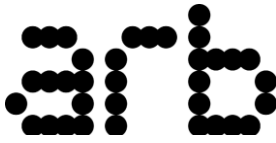
The Committee queried whether it should take responsibility for oversight of the Board's investments. After discussion the Committee concluded that this would not be appropriate, but that this could be discussed again when the Committee undertook its annual review of its terms of reference.

**Action Point: The Committee should consider whether it should take responsibility for oversight of the Board's investments when next reviewing its Terms of Reference.**

The Committee accepted the internal audit recommendations and agreed to monitor progress in addressing them.

#### ii. Human Resources Internal Audit

Paul Rao introduced the report and confirmed it had been given a moderate rating overall. One medium priority recommendation had been made, but there had been many positive findings given notwithstanding that the organisation had no dedicated



support in this area.

It was noted that the Internal Auditors had identified that the staff appraisal process could be enhanced and streamlined.

The Committee accepted the recommendations and agreed to monitor progress in addressing them.

### **iii. Cyber Internal Security**

Paul Rao also introduced this report and confirmed it had been given a moderate rating overall. It was noted that the auditors had identified seven medium priority recommendations. It was confirmed that the report concluded that there was good control over this area and that the auditors considered the report to be a positive rating.

In particular, the Internal Auditors highlighted the risk regarding the IT consultant and the need to ensure that appropriate succession planning arrangements were in place.

It was noted that the Operational Management Group was aware of this issue and had ensured that an IT manual was developed in the event that the IT consultant left the organisation. It was also noted that an external contractor could be brought in if circumstances required it.

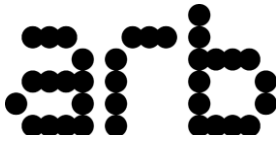
The Internal Auditors also noted that there were a number of areas where small, but immediate responses would address the recommendations. It was also reported that further thought would need to be given to several longer term issues including the use of memory sticks.

It was noted that additional costs would be incurred in order to respond to some of the recommendations, but that value for money would continue to be key consideration in terms of addressing the recommendations. It was agreed that the Committee would find it helpful to see an indication of the costs involved when the next progress update was provided.

In response to a query from one member of the Committee, it was confirmed that penetration testing was undertaken on an annual basis and that the contractors used to undertake the testing were rotated in order to ensure that the testing remained rigorous and that the security mechanisms were tested from different perspectives.

The Committee accepted the recommendations and agreed to monitor progress in terms of addressing them.

**Action Point: Operational Management Team to provide the Audit Committee with an indication of the costs involved in addressing the Cyber Security internal audit recommendations as part of the progress update.**



## **b. Outstanding Recommendations from previous internal audits**

The Registrar introduced the paper and confirmed that there were a number of items awaiting testing and that testing would take place in December 2016.

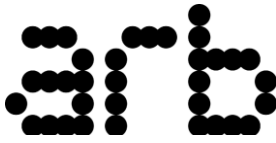
## **6. Board Members' Code of Conduct**

The Committee discussed and agreed the following in relation to the non-contentious areas of the draft Code:

- Point 5.7: this area should be more specific and include more explanation in relation to the information that Board members should provide regarding their legal and financial status; and
- Points 5.6.1 and 5.6.2: these areas should be reviewed and any duplication should be removed.

In relation to points 5.5.6; 5.6.1 and 5.10, the Committee noted and agreed the following:

- Point 5.5.6: the Committee felt that the first and last sentences of this section were contradictory and should be removed. However, the middle sentence which read, 'ARB Board member should not make political statements or engage in any other political activity relating to ARB's work', would be workable and should remain. Further clarification should be sought from the DCLG as to whether the proposal to solely refer to the middle sentence would be acceptable;
- Point 5.6: the Committee agreed that the first paragraph should stand, but queried whether the proposed adjustments to the second paragraph, i.e., restricting access to Board/Committee papers, was workable in practice. The Committee felt that in order to undertake their roles effectively, Board members should have access to papers regardless of whether they had a conflict of interest. The Committee did accept, however, that while those with conflicts of interest should not participate in Board discussions/decisions about specific issue for which they were conflicted, they should still have access to the papers in order to understand the nature and context of the Board's discussions. It was agreed that further guidance should be sought from the DCLG in relation to this area and the proposed changes should be reviewed and adjusted;
- Point 5.10: Members of the Committee felt that the wording was too ambiguous and narrow in scope. As drafted the proposed wording implied that Board members must inform the Chair each and every time they wished to or were applying for a new appointment/role. It was also felt that this could restrict Board members unnecessarily in terms of other areas of their work. The Committee discussed whether this point could more usefully refer to the need for Board Members to declare any new appointments or to seek guidance if they felt that any conflicts of interest arose from an appointment



they were considering accepting. It was agreed that further guidance from the DCLG, as well as the Board's solicitor, should be sought as to how the wording under this point could be satisfactorily amended.

**Action Point: The Registrar/Head of Qualifications and Governance should consult the DCLG, as well as the Board's solicitor regarding the relevant points of the Code and bring the responses and advice back to the Committee at its next meeting.**

## 7. Regular Report to the Board

*This item was taken out of sequence and was dealt with at the end of the meeting.*

It was agreed that the Chair would update the Board at its next meeting in relation to the Committee's discussions about the following areas:

- The internal audit programme;
- The Committee's discussions regarding the Board's investments;
- The Risk Register;
- Changes to the operation of the Committee and the 'deep dives' it would be undertaking in future; and
- The external auditors' tender process.

Members of the Committee queried whether the Board should be asked for its views on the style and content of the Risk Register. It was agreed that this was a matter for the Audit Committee and the Operational Management Group rather than the Board.

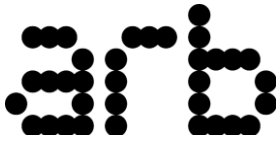
One member also queried whether the Audit Committee's papers should be routinely made available to all Board members. It was agreed that the Chair's report to the Board should be sufficient to keep Board members abreast of the Committee's work and any relevant issues. It was confirmed that any Board member could request a copy of the Audit Committee's papers if they so wished.

**Action Point: The Chair of the Audit Committee to update the Board on the Committee's recent meeting/work to the Board Meeting of 24 November 2016.**

## 8. 2017 Work Programme

The Chair proposed that the Committee should hold four meetings per year rather than the current three in order to deal effectively with the workload and to reduce the gap between meetings which occurred in October and March. This would also enable the Committee to undertake short pre-meeting training/briefing sessions and allow the Committee to encompass some 'deep dive' sessions, which focussed on specific areas of risk to the organisation.

It was agreed that a date for a fourth meeting, in January 2017, should be set as soon



as possible with the annual rolling work plan adjusted to accommodate four meetings a year. It was agreed that meetings would typically start at either 9.30am or 10am depending on the agendas.

Committee members confirmed that they would particularly welcome pre-meeting training/briefing sessions arranged initially on the following topics:

- Risk Registers (see above also); and
- Other Audit Committees and how they operated

Committee members were additionally asked to notify the Chair and/or Registrar of any other topics they would like to cover as part of the pre-meeting training/briefing sessions as soon as possible.

It was agreed that the Committee would review its work plan, the series of 'deep dives' and the schedule of internal audits for 2017 at its meeting in January 2017.

**Action Points:**

**The Registrar/Head of Qualifications and Governance to arrange an additional meeting in January 2017.**

**Committee members to provide the Chair/Registrar with the details of any topics they would like to see covered as part of the pre-meeting training/briefing sessions.**

**The Operational Management Team should bring the updated annual work plan; rolling annual programme of work, a list of 'deep dives' and the schedule of internal audits for 2017 back to the Committee for discussion and agreement in January 2017.**

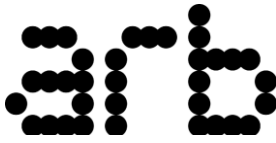
## **9. Reporting to the Board**

The Committee noted the paper which clarified changes to the performance statistics for 2014-2015 and reported a discrepancy in the figures which had been reported to the Board in July 2017. The Committee accepted that errors occurred from time to time and welcomed the fact that this had been reported to them and changes put in place to ensure that such discrepancies did not reoccur.

## **10. Timetable for 2017 External Auditors Tender Exercise**

The Committee noted and agreed the timetable for the 2017 External Auditors' tender exercise.





## 11. Investment Policy

The Head of Finance and Resources introduced the paper and outlined the recommendations.

Several queries were raised in relation to the context of the information provided within the paper. It was agreed that these should be dealt with outside of the meeting so that the relevant details could be covered in the final paper which would be presented to the Board for approval.

The Committee was reminded that, the Board, at its meeting on 15 September 2016 had agreed that the Head of Finance and Resources would explore options with the Investment Broker, based on the revised strategy, and report back to the Audit Committee on the risks associated with the change and potential option for lowering the risk at its October meeting. A report should then be brought to the November Board meeting for final agreement.

**Action Point: The Head of Finance and Resources would liaise with relevant Committee members in order finalise the content of the paper to be forwarded to the Board.**

**Action Point: The Head of Finance and Resources would explore options with the Investment Broker, based on the revised strategy, and report back to the Audit Committee on the risks associated with the change and potential option for lowering the risk. A report would then be provided to the Board at its November meeting for agreement.**

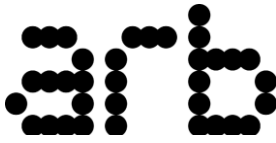
After discussion, the Committee thanked the Head of Finance and Resources for the work that he had done on this subject and agreed that the paper should be forwarded to the Board for approval.

## 12. Internal Compliance Reviews

The Committee noted the papers setting out the details and updates regarding the internal compliance reviews, including the compliance review of the scheme of decision making, and the compliance review of the ABR/DCLG Framework Agreement as well as the update on the actions taken following the Transparency Review.

## 13. Any Other Business

There was no other business.



#### **14. Dates of next meetings**

January 2017 – date to be confirmed

16 March 2017

15 June 2017

19 October 2017

The timings of the meetings would be confirmed in due course.