



Subject Audit Committee's Annual Report (1 April 2017 to 31 March 2018)
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.

Audit Committee Annual Report from 1 April 2017 to 31 March 2018

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
Carol Bernstein

The Committee met four times between 1 April 2017 and 31 March 2018, (June and October 2017, and January and March 2018).

Grant Thornton, the Internal Auditors, attended all appropriate agenda items at the Committee meetings in 2017 (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 2017 and March 2018.

The Committee renewed its terms of reference in March 2017 and some minor amendments were put to the Board for consideration at its May 2017 meeting. As in prior years, the Committee reviewed its activities against the terms of reference during 2017 to ensure it had fulfilled its responsibilities.

ii. **Work of the Audit Committee**

Chair's activity

In 2017, the Chair met with Paul Rao, Grant Thornton, before every Audit Committee meeting and with representatives from the external auditors, Crowe Clark Whitehall once during 2017. The Chair also attended a meeting of the Department for Communities and Local Government's (now Ministry of Housing, Communities and Local Government) Arm's Length Bodies' Audit Committee Chairs on 17 July 2017.

Internal Audits

The work of the Committee during 2017 included internal audit reviews of the Scheme of Decision Making, Insurance Arrangements and Contract Tendering and Procurement. As in previous years, the Committee also agreed to the follow up testing of all internal audit recommendations considered by management to be complete.

Risk Register

In addition to the above internal audits, the Committee:

- Reviewed the Risk Register as a document and the way in which risk is measured and reported on. Significant research was undertaken into different methods of reporting risk with a view to finding a register that suited ARB's operational and risk profile. A revised risk register calculating gross and residual risk and recording the mitigation in place to reduce likelihood and impact is in place
- Undertook a risk assurance mapping exercise, an action designed to challenge the thinking and rationale involved in risk assessment and risk reporting. Action against recommendations is being monitored

The Committee also 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 2017, specific consideration and discussions took place in relation to the increasing operational and resource risks associated with implementing the Periodic Review, undertaking business as usual reviews of the procedures for Prescription and Criteria and an increase in demand for ARB's services. Decisions were taken by the Board to increase headcount from 23 to 25 permanent members of staff.

The risk assurance mapping exercise brought out a series of recommendations to consider whether ratings were appropriate and to tighten up key areas. For example, a common theme arose that the internal auditor felt ARB was overstating the level of risk and underplaying the mitigation in relation to some principal risks, so a full review of the Register was undertaken in response. Other recommendations included digitising exception reporting in Registration and commissioning a marketing and brand awareness exercise. The revised register and progress against the recommendations were reported to the Audit Committee in January 2018. We continue to monitor progress against all the recommendations from the mapping exercise.

Changes to supplier tax arrangements

Because ARB is a public body and subject to the Freedom of Information Act the organisation is required to assess its suppliers in terms of their tax arrangements. In June 2017, the Committee noted that a process had now been put in place to undertake the necessary assessments and that this was being tested by the external auditors to ensure the assessments were pitched correctly.

General Data Protection Regulations

The Committee noted updates in relation to ARB's requirement to ensure compliance with General Data Protection Regulations (GDPR) by 25 May 2018. GDPR was also added as a Principal Risk to the Risk Register and considered by the Committee in January 2018.

Reviews of Criteria and Procedures for Prescription

The Committee has considered the operational risks associated with the review of the Criteria and Procedures for Prescription through that project's risk register. This has given the Committee an insight into the acute risks associated with each project and assurance that the staff team has sight of these and are managing them proportionately.

Brexit

Whilst the Committee has been sighted on significant developments coming out of Brexit since June 2016, at the turn of 2018 the staff team formed a Brexit working group. The working group is planning for a number of different scenarios and is reporting to the Committee on developments. An operational risk register was presented to the Committee in March 2018 as well as the outcomes of a deep dive into Principal Risk 1 which relates to Brexit.

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 2017, 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 2017 was heightened due to increased pressure on the organisation in implementing the outcomes of the periodic review, carrying out reviews of the Criteria and Procedures for Prescription and planning for Brexit. In July 2017, 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 as part of the Risk Register. Continued vigilance will be required in 2018 to review the capacity and resilience of the organisation.

iv. **External audit of the Annual Report and 2017 Financial Statements**

Prior to the start of the external audit, the Committee agreed the scope for the 2017 annual external audit. At the March 2018 meeting of the Committee, the External Auditors presented their report on the progress of the 2017 audit, their review of the draft Annual Report and Financial Statements for the year ended 31 December 2017, 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 2018 meeting. The External Auditors confirmed they experienced no problem whilst carrying out the 2017 audit and that the Executive had assisted throughout the process.

v. **Outcome of 2017 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 2017 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:

- Scheme of decision making – two medium risk, two low risk improvement findings
- Insurance arrangements – three medium risk, three low risk improvement findings
- Contract tendering and procurement – one high risk, one medium risk, three low risk improvement findings

In March 2018, 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 evaluates ratings is attached at [Annex A](#).

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

Throughout 2017, the Audit Committee undertook 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. Reviews were then carried out into:

- Prescription (June 2017)
- Disciplinary processes (October 2017)
- Title Regulation (January 2018)

Action points emerging from the deep dives were:

- Registration – The Operational Management Group to highlight to the DCLG that the Architects Act 1997 does not contain an appropriate power to remove an individual registered in error and that this should be looked into and addressed when the legislation is next updated/adjusted.
- Prescription - The Head of Qualifications and Governance should consider internally testing the processes underpinning the Procedures for the Prescription Qualifications.
- Prescription - The Head of Qualifications and Governance should ensure that the Qualifications Team’s internal procedures should be brought fully up to date.
- Prescription - The Registrar and Head of Qualifications and Governance should take forward a request for additional resources to support the work of the Qualifications Team and to ensure that the team is able to deliver.
- Disciplinary Processes – The Head of Professional Standards should take forward the planned training of the Investigations Panel and the Professional Conduct Committee on unconscious bias.
- Title misuse – The Head of Professional Standards should prepare some modelling information regarding the scale of title misuse to inform a Board discussion about its appetite and future strategy in this area.

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 2017, Grant Thornton re-tested the implementation of the completed recommendations.

At the January 2018 meeting, Grant Thornton reported their findings on the 2017 re-testing. The Committee noted that only nine recommendations outstanding remained in progress and there were good reasons for the implementation of these recommendations being delayed..

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

At its March 2018 meeting, the Committee considered the performance of the Internal Auditors, Grant Thornton. The Committee concluded that it remained content with the service and additional “value added” service Grant Thornton provides.

In July 2017, following a full tender process Crowe Clark Whitehall (CCW) were re-appointed as the organisation's External Auditors for a period of three years. In March 2018, the Committee reviewed the performance and effectiveness of CCW. The Committee noted that ARB was satisfied with the performance of CCW as the organisation's external auditors. The audit was well managed and the audit work was carried out efficiently, within the agreed timescales and within budget.

ix. **Review of the Committee's Terms of Reference**

Annually the Committee considers its Terms of Reference to ensure that they remain fit for purpose. At its March 2018 meeting, the Committee considered its Terms of Reference and concluded that they remain fit for purpose and agreed that no changes needed to be made. The Committee also noted a table of compliance illustrating that it had fulfilled its Terms of Reference during the last year.

x. **Looking Forward**

A plan has been agreed between the Committee and management for 2018. This involves a programme of internal audits into Information Management, Registration and Health and Safety. The Committee has also discussed a number of possible areas which may impact on ARB's ability to deliver, including implementing the outcomes of the Periodic Review and the implications of Brexit.

As the terms under which the UK will leave the European Union and the impact this will have on ARB become clearer in 2018, the Committee will be given updates and consider the implications and identify, if appropriate, ways in which those implications can be supported through the Committee's work.

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.

5. Resource Implications

The Committee used its allocated financial resources for 2017. £36,798 was paid to Grant Thornton for their work on internal audits and reviews as specified within this report. A further £54,546 was paid to Crowe Clark Whitehill LLP for its work on the external audit and other accountancy advice during 2017/2018.

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. ARB is in the process of putting an equality and diversity plan in place. The Audit Committee will be responsible for ensuring that the executive adheres to this plan in the delivery of its operations.