

# Board paper

for Open session

Subject:

Establishment of a Finance, Risk and Audit Committee

Board meeting:

21 May 2025

Agenda item:

9

Action:

- For noting ☐
- For discussion ☐
- For decision ☒

## Purpose

To consider and approve the Terms of Reference for a new Finance, Risk and Audit Committee.

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## Recommendations

It is recommended that the Board agrees:

- i. To dissolve the Audit and Risk Assurance Committee with effect from 30 June 2025;
- ii. To create a new Finance, Risk and Audit Committee with effect from 1 July 2025;
- iii. The Terms of Reference for the new Finance, Risk and Audit Committee as set out in **Annexes A and B**;
- iv. That two independent, external members should be appointed to the Committee as a priority; and
- v. Notes that the membership of ARB's committees will be considered under item 26 on the Board's agenda of 21 May 2025.

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## Annexes

Annexe A – Tracked change version of the draft Terms of Reference for a Finance, Risk and Audit Committee

Annexe B – Clean copy version of the draft Terms of Reference for a Finance, Risk and Audit Committee

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## Author/Key Contact

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## 1. Open Session

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## 2. Background and Key points

- 2.1. At its meeting of 11 February 2025, the Board held an initial discussion regarding the creation and terms of reference for a new Finance, Risk and Audit Committee (FRAC). It was proposed that the FRAC should replace the existing Audit and Risk Assurance Committee (ARAC) and be given additional responsibilities in relation to the financial governance of the organisation. (Further details can be found with the paper for Item 8 of the meeting held on 11 February 2025).
- 2.2. The Board, amongst other things, requested further assurance and benchmarking information setting out how other arms' length bodies and professional regulatory bodies dealt with this area.
- 2.3. We have undertaken desk-based review and research to identify whether analogous organisations ask their audit and risk committees to provide assurance also around the finance function.
- 2.4. For example, the General Optical Council has an Audit, Risk and Finance Committee which has responsibility for providing the Council with assurances regarding the management of the GOC's finances, management of risk, the internal control environment and corporate and charity governance. Other regulatory bodies have Audit and Risk Committees and separate Finance and Performance Committees for examples. These organisations, which include the General Dental Council, tend to be much larger organisations.
- 2.5. We have also noted that many organisations in the public sector (including higher education) regulatory, membership and charity sectors also include financial governance assurance within their terms of reference or standard business, but not necessarily as part of the Committee's name.
- 2.6. We have looked at other Arm's Length Bodies (ALBs) and this is much less common. It should be noted however, that the financial governance around these bodies include much more direct scrutiny from central government with annual budgets set by government departments. There are also very different restrictions on financial reserves and investment policies. ARB has a unique status as a Public Corporation, with completely independent financial position from Central Government or ALBs funding by Central Government.
- 2.7. As part of the additional assurance process we sought feedback on the operation of a similar approach from the independent Chair of the RICS Audit, Risk and Finance Committee. We also tested our proposals from the most senior finance profession in our sponsor department, the Ministry of Housing, Communities and Local Government, who was supportive of our proposed plans to create FRAC and enhance financial governance and assurance.

- 2.8. The Board also requested further reassurance as to how appropriate ‘lines of defence’ would be dealt with once the new committee had been brought into effect. The traditional ‘Three Lines Model’<sup>1</sup> includes ensuring that there are appropriate controls in place to mitigate risks at an operational level, that there are appropriate management oversight mechanisms in place, and finally that there are independent, objective risk assurance processes in place to ensure that an organisation is operating with integrity and transparency.
- 2.9. ARB covers these lines of defence at the first level through its teams and managers; at the second level through senior management oversight and quality assurance the third level through independent internal and external audit processes.
- 2.10. The Board also provided suggested drafting adjustments as well as changes to the proposed constitution of the Committee. These amendments have now been incorporated into the Terms of Reference. **Annexe A** sets out a track change version of the Terms of Reference highlighting those adjustments, whilst **Annexe B** is a clean version of the proposed final Terms.
- 2.11. Subject to the Board’s approval of the recommendations set out within this paper, and the proposed membership of the Committee set out under item 26 of the agenda, we proposed that the first meeting of the new Committee should be held in late July. This meeting will incorporate an induction session as well as relevant initial Committee business. If for any reason there have been delays to the appointment of the new independent external members, we propose that the initial meeting should go ahead, with the new members being inducted and joining the Committee at the earliest opportunity following that July meeting.
- 2.12. The proposal for two independent members of the committee is in recognition that we are unlikely to be able to identify a single independent person with financial, risk and investment skills.
- 2.13. The Board is asked to consider the revised Terms of Reference, along with the other details set out in the paper and approve the recommendations above.

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### 3. Resource Implications

- 3.1. Establishing the FRAC will impact the Governance and International Team’s budget for 2025 as there will be additional costs in relation to recruitment, holding further in person induction and committee meetings, as well as additional attendance allowance/travel and subsistence costs attached to this. However, the additional costs can be absorbed within the overall governance budget through efficiency savings elsewhere.
- 3.2. The addition of a new area of responsibility to the Committee could potentially impact committee members’ workloads. Noting this, we propose that two

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<sup>1</sup> [The Orange Book – Management of Risk – Principles and Concepts](#)

independent external members should be appointed to the Committee to assist in supporting any additional workload.

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## 4. Risk Implications

- 4.1. This will be a new committee with new responsibilities regarding the organisation's financial management and performance. Ensuring that the Committee has the right expertise to carry out its responsibilities, and in turn support the work of the Board in these areas, is of critical importance.
  - 4.2. As this is a new Committee, we think it right that we seek two new independent appointments. The current independent member will be notified that their contract will end when the ARAC ceases to exist.
  - 4.3. The two independent Committee members, who will be recruited through an open process, will assist in ensuring that the Committee's responsibilities will be achieved and an external and independent view is provided.
  - 4.4. It is essential, given its overarching role and responsibilities, that ARB has robust and transparent financial governance and performance monitoring processes in place. Periodically reviewing the relevant arrangements and making adjustments, such as replacing ARAC with FRAC, ensures that ARB has appropriate mechanisms for an organisation of its size and nature in place, and is keeping pace with good practice.
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## 5. Equality and Diversity implications

- 5.1. Equality, diversity and inclusion considerations will be taken into account when making recommendations regarding the membership of the new Committee, as well as throughout the recruitment process for the independent members. It will also form part of the brief to an external recruitment agency who will be needed to support us in the appointment of two independent members.
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## 6. Recommendations

- 6.1. It is recommended that the Board agrees:
  - i. To dissolve the Audit and Risk Assurance Committee with effect from 30 June 2025;
  - ii. To create a new Finance, Risk and Audit Committee with effect from 1 July 2025;
  - iii. The Terms of Reference for the new Finance, Risk and Audit Committee as set out in **Annexes A and B**;

- iv. That two independent, external members should be appointed to the Committee as a priority; and
- v. Notes that the membership of ARB's committees will be considered under item 26 on the Board's agenda of 21 May 2025.

## Annexe A

### Draft – Tracked Change Version following ARB Board Meeting Discussions on 11 February 2025

#### Finance, Audit and Risk Committee Terms of Reference

##### 1. Purpose

The Finance, Audit and Risk Committee (the 'Committee') is a Committee of the Board. It is accountable to the Board and will operate within the framework of relevant governance policies established by the Board. It supports the Board in fulfilling its oversight responsibilities with respect to the organisation's financial management, risk management and internal controls. The Committee will ensure that ARB adheres to appropriate governance practices, complies with applicable legislative and regulatory requirements, and effectively manages its financial and operational risks.

##### 2. Duties

The Committee will:

###### Financial Management

- 2.1 **Receive** annually, the organisation's three year financial plan and one year budget, and seek ensure appropriate assurance that ARB can sustain and develop its activities to fulfil its statutory obligations and strategy
- 2.2 **Review and monitor** make recommendations to the Board regarding the organisation's financial policies including authorisation limits, reserves and liquidity to ensure they are fit for purpose
- 2.3 **Review** the organisation's draft annual report and financial statements, and ensure that ~~#~~ they are prepared in accordance with legal and regulatory requirements, and **provide recommendations** ~~regarding the report~~ to the Board
- 2.4 **Appoint, reappoint or remove** the organisation's investment broker
- 2.5 **Monitor** ~~Review~~ financial performance including management accounts, forecasts, draft budgets, KPIs and cashflow statements, ~~and ensure that~~ the integrity of the financial information provided and ensure seek assurance that appropriate actions are taken to respond to any deviations from the financial plan that the Board has approved
- 2.6 **Receive** reports and provide advice to maximise returns on cash surpluses and investments, and ensure seek appropriate assurance that these operate within the framework of ARB's risk appetite and strategy
- 2.7 **Ensure** that the organisation maintains a system of robust financial controls to safeguard the assets of ARB.

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## Risk Management

- 2.8 Review and advise the Board on ARB's risk management framework to ensure effective risk mitigation strategies are in place and provide regular advice and recommendations to the Board regarding relevant updates that are needed to the framework
- 2.9 **Identify and assess** the organisation's significant financial and operational risks, including regulatory, reputational and strategic risks
- 2.9 Develop, implement, and oversee a risk management framework that ensures effective risk mitigation strategies are in place
- 2.10 **Review** reports from internal and external auditors regarding risk management activities and **make recommendations** to the Board
- 2.11 ~~Monitor~~ Oversee the effectiveness of the risk management framework and ensure it is regularly updated provide regular advice and recommendations to the Board regarding relevant updates that are needed to the framework

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## Internal Audit

- 2.12 **Appoint, reappoint or remove** the internal auditors
- 2.13 **Oversee** the internal audit process, including **approving** the annual internal audit plan and seeking assurance that there are sufficient resources available to support internal audit.
- 2.14 ~~Ensure~~ Seek appropriate assurance regarding the independence and effectiveness of the internal audit function
- 2.15 **Review** the internal auditor's reports on controls, processes and compliance with relevant laws and regulations
- 2.16 ~~Ensure~~ Seek appropriate assurance that the organisation acts on audit findings and implements appropriate actions

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## External Audit

- 2.17 **Make recommendations** to the Board regarding the appointment of external auditors and **review** their performance and independence
- 2.18 **Review** the external auditor's scope of work and effectiveness of the external audit process
- 2.19 **Oversee** the external audit process, and **review** the auditor's findings, ~~as well as the organisation's financial statements~~

## Compliance and Governance

- 2.20 ~~Ensure~~ Seek appropriate assurance that all compliance with legal and regulatory requirements relating to financial, risk and audit matters are complied with.

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2.21 **Review and monitor** ~~provide advice to the Board~~ ~~policies~~ regarding financial reporting, audit and risk management policies, ensuring they align with best practice

2.22 **Report** to the Board on any material findings or concerns relating to financial and operational performance, risk management and controls

### 3. Authority

3.1 The Board and ARB's Accounting Officer authorise the Committee to test, and investigate where appropriate, any activity within its terms of reference and to access any records, staff and physical properties deemed necessary to assist the Committee to carry out its duties.

3.2 The Committee can where necessary, and where costs are reasonable, decide to obtain, in consultation with ARB's Accounting Officer and/or the Board Chair, external professional advice on any particular issue.

3.3 The Chair of the Committee shall, where necessary, have confidential access to the ARB Accounting Officer and/or the Director of Performance and Planning/Head of Finance.

3.4 The Committee can recommend actions to the Board on matters related to finance, risk and audit as appropriate and based on its assessments.

### 4. Membership

4.1 The members of the Committee shall be appointed by the Board and shall consist of:

- ~~A Chair appointed by the Board~~
- ~~One Two~~ lay and ~~one two~~ architect Board members, one of which will be appointed as the Chair of the Committee
- Up to t~~Two~~ additional external member/s to supplement the Committee's skills base and provide an additional independent perspective advice and challenge.

4.2 The Chair of the Committee will be a Board member, and should ~~ideally have recent significant and relevant financial and/or audit qualifications and or experience. The Board may vary this provided these skills and expertise are covered by other Board members on the Committee.~~ financial and/or audit qualifications, or other significant relevant recent experience. Where the Chair does not hold financial or audit qualifications, another member of the Committee should must do so.

4.24.3 Other regular attendees of the Committee should include the CEO & Registrar, ~~the Director of Performance and Planning, the Head of Audit, Risk and Procurement, the Head of Finance and relevant members of the~~ relevant members of the Senior Leadership Group, the Finance, Risk and Governance Departments, staff members responsible for finance, risk and governance.

4.4 The Committee may ask any other member of staff, or such others as may be appropriate, to attend to assist it with its discussions on any particular matter.

## **5. Quorum**

- 5.1 The quorum of the Committee shall be three members of the Committee if the Committee consists of five members. The quorum shall be four members of the Committee if the Committee consists of six members.-
- 5.2 In the event that the Chair has any direct and significant conflicts of interest or is unavoidably absent for any item, the Committee may ask one of the lay members to stand in as Chair for the relevant items.

## **6. Meetings and Procedures**

- 6.1 The Committee will normally have four scheduled meetings per year. These should align with key points in the financial and governance calendar. Additional meetings can be called by the Chair of the Committee at any time, giving at least 14 days notice.
- 6.2 Meetings will typically be held online. At least one meeting per year will be held in person. Meetings will be held in confidential session in line with the Board's policy.
- 6.3 The External Auditors will have access to the Chief Executive Officer & Registrar, Chair of the Board and the Chair of the Committee as necessary.
- 6.4 The Internal Auditors and/or External Auditors will normally be invited to meet with the Committee in private as well as attend for items where required as part of the agenda.
- 6.5 External auditors or internal auditors may raise any issues directly with the Chair of the Finance, Audit and Risk Committee, or request a meeting with the Committee, at any time.

## **7. Reporting Requirements**

- 7.1 A draft of the minutes will normally be circulated to the Chair of the Committee for initial approval within five working days of a meeting taking place. The Chair will normally approve the draft minutes within a further five working days following receipt of the draft minutes. The Chair-approved minutes will then be circulated to members of the Committee (and any attendees as appropriate) as a draft immediately after they have been approved by the Chair. The minutes will be presented at the next Committee meeting for formal approval. The Committee-approved, Chair-approved, or in exceptional circumstances, the unapproved, minutes will be presented for noting at the next Board meeting. In all cases, the status of the minutes will be made clear to the Board.
- 7.2 The Chair of the Committee will provide and present an annual report on the Committee's work to the Board. Relevant information will also be included in the organisation's Annual Report and Financial Statements as appropriate.
- 7.3 The Chair of the Committee, or nominated alternate, will attend the Sponsoring Government Department's forum of Audit and Risk Assurance Committee Chairs.

## **8. Papers and Agendas**

- 8.1 The Executive shall circulate an agenda and papers no less than five working days before each meeting. Late papers may be circulated with the agreement of the Chair. Where the

Chair agrees that late papers can be circulated, these will be provided as soon as possible and the Registrar shall provide reasons in writing to the Committee.

**9. Declarations and Conflicts of Interest**

- 9.1 Declarations of Interest must be made in line with ARB's Declarations and Conflicts of Interest Policy. Any member or attendee of the Committee who becomes aware of a potential conflict of interest, relating to matters being discussed by the Committee, must give immediate notification of that interest to the Governance Team if they become aware of it prior to the meeting; or must declare the interest at the meeting if they become aware of it once the meeting has commenced.

Approved by ARB Board

TBC

## Annexe B

### Draft – Clean Version following ARB Board Meeting Discussions on 11 February 2025

#### Finance, Audit and Risk Committee Terms of Reference

##### 1. Purpose

The Finance, Audit and Risk Committee (the 'Committee') is a Committee of the Board. It is accountable to the Board and will operate within the framework of relevant governance policies established by the Board. It supports the Board in fulfilling its oversight responsibilities with respect to the organisation's financial management, risk management and internal controls. The Committee will ensure that ARB adheres to appropriate governance practices, complies with applicable legislative and regulatory requirements, and effectively manages its financial and operational risks.

##### 2. Duties

The Committee will:

###### Financial Management

- 2.1 **Receive** annually, the organisation's three-year financial plan and one year budget, and seek **appropriate assurance** that ARB can sustain and develop its activities to fulfil its statutory obligations and strategy
- 2.2 **Review and make recommendations** to the Board regarding the organisation's financial policies including authorisation limits, reserves and liquidity to ensure they are fit for purpose
- 2.3 **Review** the organisation's draft annual report and financial statements and ensure that they are prepared in accordance with legal and regulatory requirements, and **provide recommendations** to the Board
- 2.4 **Appoint, reappoint or remove** the organisation's investment broker
- 2.5 **Review** financial performance including management accounts, forecasts, draft budgets, KPIs and cashflow statements, **ensure** the integrity of the financial information provided and **seek assurance** that appropriate actions are taken to respond to any deviations from the financial plan that the Board has approved
- 2.6 **Receive** reports and provide advice to maximise returns on cash surpluses and investments, and **seek appropriate assurance** that these operate within the framework of ARB's risk appetite and strategy
- 2.7 **Ensure** that the organisation maintains a system of robust financial controls to safeguard the assets of ARB

## **Risk Management**

- 2.8 **Review and advise the Board** on ARB's risk management framework to ensure effective risk mitigation strategies are in place and provide regular advice and recommendations to the Board regarding relevant updates that are needed to the framework
- 2.9 **Identify and assess** the organisation's significant financial and operational risks, including regulatory, reputational and strategic risks
- 2.10 **Review** reports from internal and external auditors regarding risk management activities and **make recommendations** to the Board

## **Internal Audit**

- 2.11 **Appoint, reappoint or remove** the internal auditors
- 2.12 **Oversee** the internal audit process, including **approving** the annual internal audit plan and seeking assurance that there are sufficient resources available to support internal audit
- 2.13 **Seek appropriate assurance** regarding the independence and effectiveness of the internal audit function
- 2.14 **Review** the internal auditor's reports on controls, processes and compliance with relevant laws and regulations
- 2.15 **Seek appropriate assurance** that the organisation acts on audit findings and implements appropriate actions

## **External Audit**

- 2.16 **Make recommendations** to the Board regarding the appointment of external auditors and **review** their performance and independence
- 2.17 **Review** the external auditor's scope of work and effectiveness of the external audit process
- 2.18 **Oversee** the external audit process and **review** the auditor's findings

## **Compliance and Governance**

- 2.19 **Seek appropriate assurance** that all legal and regulatory requirements relating to financial, risk and audit matters are complied with
- 2.20 **Review and provide advice to the Board** regarding financial reporting, audit and risk management policies, ensuring they align with best practice
- 2.21 **Report** to the Board on any material findings or concerns relating to financial and operational performance, risk management and controls

### **3. Authority**

- 3.1 The Board and ARB's Accounting Officer authorise the Committee to test, and investigate where appropriate, any activity within its terms of reference and to access any records, staff and physical properties deemed necessary to assist the Committee to carry out its duties.
- 3.2 The Committee can where necessary, and where costs are reasonable, decide to obtain, in consultation with ARB's Accounting Officer and/or the Board Chair, external professional advice on any particular issue.
- 3.3 The Chair of the Committee shall, where necessary, have confidential access to the ARB Accounting Officer and/or the Director of Performance and Planning/Head of Finance.
- 3.4 The Committee can recommend actions to the Board on matters related to finance, risk and audit as appropriate and based on its assessments.

### **4. Membership**

- 4.1 The members of the Committee shall be appointed by the Board and shall consist of:
  - Two lay and two architect Board members, one of which will be appointed as the Chair of the Committee
  - Up to two additional external member/s to supplement the Committee's skills base and provide an additional independent advice and challenge.
- 4.2 The Chair of the Committee will be a Board member and should have financial and/or audit qualifications, or other significant relevant recent experience. Where the Chair does not hold financial or audit qualifications, another member of the Committee must do so.
- 4.3 Other regular attendees of the Committee should include the CEO & Registrar, relevant members of the Senior Leadership Group, and staff members responsible for finance, risk and governance.
- 4.4 The Committee may ask any other member of staff, or such others as may be appropriate, to attend to assist it with its discussions on any particular matter.

### **5. Quorum**

- 5.1 The quorum of the Committee shall be three members of the Committee if the Committee consists of five members. The quorum shall be four members of the Committee if the Committee consists of six members.
- 5.2 In the event that the Chair has any direct and significant conflicts of interest or is unavoidably absent for any item, the Committee may ask one of the lay members to stand in as Chair for the relevant items.

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- 6.4 The Internal Auditors and/or External Auditors will normally be invited to meet with the Committee in private as well as attend for items where required as part of the agenda.
- 6.5 External auditors or internal auditors may raise any issues directly with the Chair of the Finance, Audit and Risk Committee, or request a meeting with the Committee, at any time.

## **7. Reporting Requirements**

- 7.1 A draft of the minutes will normally be circulated to the Chair of the Committee for initial approval within five working days of a meeting taking place. The Chair will normally approve the draft minutes within a further five working days following receipt of the draft minutes. The Chair-approved minutes will then be circulated to members of the Committee (and any attendees as appropriate) as a draft immediately after they have been approved by the Chair. The minutes will be presented at the next Committee meeting for formal approval. The Committee-approved, Chair-approved, or in exceptional circumstances, the unapproved, minutes will be presented for noting at the next Board meeting. In all cases, the status of the minutes will be made clear to the Board.
- 7.2 The Chair of the Committee will provide and present an annual report on the Committee's work to the Board. Relevant information will also be included in the organisation's Annual Report and Financial Statements as appropriate.
- 7.3 The Chair of the Committee, or nominated alternate, will attend the Sponsoring Government Department's forum of Audit and Risk Assurance Committee Chairs.

## **8. Papers and Agendas**

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## **9. Declarations and Conflicts of Interest**

- 9.1 Declarations of Interest must be made in line with ARB's Declarations and Conflicts of Interest Policy. Any member or attendee of the Committee who becomes aware of a potential conflict of interest, relating to matters being discussed by the Committee, must give immediate notification of that interest to the Governance Team if they become aware of it prior to the meeting; or must declare the interest at the meeting if they become aware of it once the meeting has commenced.

Approved by ARB Board

TBC