

Audit and Risk Committee –for assurance

Meeting agenda title: Audit and Risk Committee effectiveness review

Meeting date: 10 October 2022

Time required: 10 minutes

Presenter: Louise Byers

1. Objective and recommendation

- 1.1. This report provides an overview of the outcomes of the Committee's recent effectiveness review and recommends a number of actions as a result.

2. Developing a common understanding

- 2.1. In June, the Committee agreed to use the National Audit Office's (NAO's) Audit and Risk Committee effectiveness tool every four years, with a lighter touch review in intervening years, to assess the effectiveness of the Audit and Risk Committee (ARC) and to identify aspects of good practice that could be incorporated into the Committee's work plan. The NAO's effectiveness tool was published on 13 May 2022 and can be accessed by [clicking this link](#).
- 2.2. This paper summarises the outcome of this work and identifies areas of good practice, areas for improvement and related actions.

3. Matters to consider to achieve objective

- 3.1. Overall, the responses indicated a high level of satisfaction with the current operation and effectiveness of the ARC. In every area, responses indicated that the ARC was going beyond the 'essentials' and was focussed on 'good practice' activities, as set out in the tool. In particular, the survey highlighted the following areas of good practice:
 - 3.1.1. Membership and contributions to the ARC and in particular the Chairing of the Committee, the wide range of skills and experience of the members and the inclusion and contributions of the independent member.
 - 3.1.2. Preparation, papers, resources and timing of meetings, including the secretariat support, communication between

meetings and monitoring of recommendations from internal and external audits.

- 3.1.3. The culture and behaviour of the ARC, acting in an inclusive and respectful manner and providing appropriate and balanced challenge and support.
 - 3.1.4. The roles and responsibilities of the ARC including proactively commissioning work, utilising the three lines of defence model and understanding the sources of assurance in the organisation.
 - 3.1.5. Risk management, including the risk framework, the risk appetite, risk culture and emerging and cumulative risk.
 - 3.1.6. The Annual Report including the preparation process, the challenge given by the ARC to ensure the Report is fair and balanced, the ARC's annual governance statement and the monitoring by the Committee of significant issues.
- 3.2. As we would expect, the feedback identified some areas for improvement. This should not detract from the overall very positive feedback from the effectiveness review. For each theme, proposed actions have been included below to ensure the ARC continues to function effectively, and in the spirit of continuous improvement:
- 3.2.1. Reviewing the skills, knowledge and expertise of the ARC, in particular in relation to areas of emerging risk. Responses reflected on the need to proactively identify which skills the ARC requires in order to discharge its responsibilities most effectively. As an example, cyber and digital skills were identified by almost all the responses as an area where the ARC could develop more resilience. While it was recognised that the current Chair brings expertise in this area and all members are aware of the cyber and digital landscape, this is an important area of risk where the ARC could benefit from additional knowledge, although the role of external assurance (for example, the recent internal audit of cyber security) was acknowledged. Climate change, net zero and ESG risks were other areas where specialist knowledge could benefit the ARC members.

There was also an acknowledgement that the development of a new strategy for the organisation will require a review of the

risk and opportunity register, something which could be done across the wider Board and the ARC.

There was positive feedback regarding the induction of members to the Committee, but a recognition that additional training and development opportunities could be beneficial throughout members' time on the Committee.

Responses also identified the need to ensure that there is a sufficiently diverse membership of the ARC, including the need for a variety of demographic attributes and characteristics, which can be challenging in a Committee with such a small number of members.

Action: the ARC should consider utilising the ability bring in specialist skills where these are required for specific subjects.

Action: the work being undertaken on Management Board development and skills mapping should continue, and include cyber, digital, ESG and climate as areas for further work.

Action: ensuring opportunities are made available for the members of the ARC, including external events, networking and specialist training where needed.

Action: work should continue, with the People Committee, to diversify the membership of the Committee and other Boards at the ICO.

Action: the ARC should consider a joint session with the Board regarding risks and opportunities of delivering ICO25.

- 3.2.2. Preparation of the accounts. Though overall the feedback on the Annual Report process was very positive, responses indicated that more could be done to offer challenge from the ARC to information from financial modelling and significant estimates and provisions. There was also a suggestion that the ARC could consider fraud and error risks in more depth as part of its work on the robustness of internal controls and financial statement preparation.

Action: as part of the review of the ARA, the Finance Director should bring a report to the June Audit Committee outlining significant judgements,

estimates and valuations, to enable greater visibility of these for the Committee.

Action: to ensure that the ARC has sufficient support to undertake this role, the Committee could consider commissioning specific reports from third parties on areas of particular judgements or estimates.

Action: to consider utilising internal audit to provide the ARC with assurance regarding fraud and error risks.

3.2.3. Ensuring an effective relationship between the internal auditors and the executive – in responses, the importance of open communication, with constructive challenge from both parties prior to the ARC meeting was stressed. While agreement will not always be reached between internal audit and the executive, it is important to ensure that any areas of concern on either side have been clearly and effectively communicated before formal consideration of the report. Recent meetings between the internal auditors and the executive are helping to resolve some of these issues.

Feedback from the internal auditors indicated that they feel listened to, and there is healthy challenge and debate in the Committee, with access to the Chair as and when required, with good, direct, communication.

Responses also indicated a need to ensure cooperation between the external auditors and internal audit to maximise overall audit efficiency, capture opportunities to derive a greater level of assurance and minimise unnecessary duplication of work.

Action: Any concerns with internal audit findings, recommendations or assurance ratings should be explored before the ARC meetings, to ensure that the reports presented are as accurate as possible.

Action: Ensure the alignment of the work of internal and external audit around significant risks through the sharing of information and discussion inside and outside Committee meetings.

4. Areas for challenge

- 4.1. Does this summary give the Audit and Risk Committee sufficient assurance as to its effectiveness and are there any other areas of development that can identified.

5. Communications considerations

- 5.1. There are no communications considerations for this report.

6. Next steps

- 6.1. The next steps for this work are, once agreed, to implement the actions above, and to undertake a light touch effectiveness review next year.

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Consultees: Audit and Risk Committee

List of Annexes: N/A

Publication decision: This report can be published internally and externally.

Outcome reached: