

# Audit and Risk Committee –for assurance

**Meeting agenda title:** Audit and Risk Committee effectiveness review

**Meeting date:** 3 November 2023

**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 'light touch' effectiveness review and recommends a number of actions as a result.

## 2. Developing a common understanding

- 2.1. In 2022, the Committee used the National Audit Office's (NAO's) Audit and Risk Committee self-evaluation survey to assess its effectiveness. It agreed to use this tool every four years and adopt a lighter touch review annually in the intervening period.
- 2.2. For 2023, the Corporate Governance team developed a new 'light touch' self-evaluation survey, which concentrates on five main areas:
  - Risk management and internal control;
  - Financial reporting and the annual report;
  - Internal and external audit,
  - Committee expertise and training; and
  - Committee operation and administrative support.

Committee members were asked to complete this survey in September/October 2023.

- 2.3. This paper summarises the outcome of this work and identifies areas of good practice, areas for development 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 Audit and Risk Committee (ARC). In every area, the responses indicated that the ARC was operating well, with an average score of 4.25/5 across all five topic areas.

3.2. In particular, the survey highlighted the following areas of good practice:

3.2.1 The diversity of ARC membership and the wide range of backgrounds and skills present in the Committee. This has led to a good level of support, robust challenge and scrutiny from the Committee, particularly in the areas of risk management, financial reporting/annual report, external and internal audit plans and associated risks.

3.2.2 Good communication with both the external and internal audit providers with meetings taking place between the Committee members and auditors ahead of the full ARC meetings, to ensure there is opportunity for the auditors to communicate directly with Committee members outside the formal meetings.

3.2.3 The Chairing of the meetings which ensures the sessions are efficient and the Committee provides an appropriate balance of support and challenge to management.

3.2.4 An experienced secretariat function ensures that the meetings are effective and the work plan covers all aspects of ARC's responsibilities. Generally, appropriate time and attention is devoted to the Committee's areas of responsibility.

3.3. The feedback identified some areas for further consideration and development as set out below. For each area, recommendations have been included for the Committee to consider, to ensure that the ARC continues to function effectively, and in the spirit of continuous improvement:

3.3.1 The committee agendas in 22/23 have been relatively full, meaning that reviews into specific risk issues, the adequacy of mitigating actions and achievability of target risk scores have not been as in depth as some members of the Committee would like, due to time constraints. In particular, the risks associated with ICO25 and other large programmes of work

have been highlighted as an area which may benefit from additional scrutiny and review by the Committee.

RECOMMENDATION: Add a standing item to the ARC agenda to ensure that emerging audit and risk issues are captured.

RECOMMENDATION: One or two annual workshop style sessions (possibly a joint session with the Board as part of the governance transition work) to be scheduled to allow more time to consider key issues, especially around the risk and opportunities of delivering ICO25.

3.3.2 Delays to the external audit annual report and the ICO Annual Report and Financial Statements 22/23 resulted in a challenging timeline for the approval of the 22/23 accounts. One member of the Committee questioned if the subcontracting of external audit has led to a lack of clarity about the responsibility for monitoring the performance of the firm completing the work. Whilst the Committee was able to ensure appropriate scrutiny and review despite the challenges in 22/23, the lessons learned exercise has been useful in identifying improvements to the process for future years and ensuring more robust external audit reporting timelines going forward.

A separate paper on the lessons learned from the production of the 2022/23 Annual Report and Financial Statements is on the agenda of the Committee's November meeting. That paper sets out a number of actions to implement improvements to the process for future years and the Committee is requested to consider the actions set out in that paper and, in particular Action 11 as follows:

**ACTION 11:** More clarity of position and realistic risks to achieving deadlines needs to be communicated should any delays be encountered during the audit process.

RECOMMENDATION: In the event of a possible significant deviation from the external audit timelines, the Chair to call a meeting with Finance and

External Audit to obtain assurance that the external audit is sufficiently resourced and risks to the timelines are mitigated.

- 3.3.3 One Committee member noted that the monitoring and oversight of the new internal auditors is still in development:

RECOMMENDATION: The ARC members continue to meet before each formal meeting to discuss any issues or risks to progress and a report is provided to the Committee at the half year stage to provide assurance that internal audit plan delivery is on track.

## 4 Areas for challenge

- 4.3 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 be identified?
- 4.4 Are there any enhancements which can be made to the "light touch" effectiveness tool for future use?

## 5 Communications considerations

- 5.3 There are no communications considerations for this report.

## 6 Next steps

- 6.3 The next steps for this work are to implement the actions and any options agreed by the Committee, and to undertake a similar light touch effectiveness review next year.
- 6.4 As part of the continuous improvement of our risk management and internal control framework, we will work through a bank of questions set out in the Government Risk Profession's risk control framework, to assess our confidence that our control activities comply with the framework as defined in the Orange Book. HM Treasury's Orange Book sets out a principles based approach to risk management in public sector organisations and includes mandatory principles which Boards must take into account when considering the effectiveness of risk management arrangements. Public sector organisations are required to either disclose compliance or explain the reasons for departure from the mandatory principles in the governance statement accompanying their annual resource accounts. Our work in this area may

necessitate some further questions for our ARC members during the remainder of the year.

**Author:** Claire Churchill

**Consultees:** Audit and Risk Committee, Joanne Butler, Louise Byers, Ailsa Beaton

**List of Annexes:** N/A

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

**Outcome reached:**