



PUBLIC MINUTES
of the Audit and Risk Assurance Committee (ARAC) meeting
on Monday 21 January 2019 at 1100am
FG47, 2 Marsham Street, London

Members

Liz Butler (LB)	Chair
Richard Hughes (RH)	
Ceri Richards (CR)	

Invited officers

Fiona MacGregor (FM)	Chief Executive
Mick Warner (MW)	Deputy Director, Finance and Corporate Services
Richard Peden (RBP)	Deputy Director, Provider Engagement
Emma Tarran (ERT)	Assistant Director, Head of Legal Services and Company Secretary
Harold Brown (HB)	Senior Assistant Director, Investigation and Enforcement
Diana Hawker (DH)	MHCLG
Sajid Rafiq (SR)	Director, National Audit Office
Maria Craig (MC)	Head of Internal Audit, Homes England
Paul Scott (PS)	Deputy Head of Internal Audit, Homes England

In attendance

John O'Mahony (JOM)	Deputy Director, Regulatory framework and performance - item 2
James Dunbar (JD)	Head of Finance – item 5
Christine Kitchen (CK)	Committee Secretary

1 Welcome and introductions

01/01/19 The Chair welcomed everyone to the first meeting of the ARAC meeting of the Regulator of Social Housing (RSH). It was noted that as this was the inaugural meeting, members of the Executive team were present to ensure they were familiar with the operation of the ARAC, to assist in future, when officers are invited to meetings when they had papers to present.

02/01/19 The ARAC Terms of Reference were discussed and the Chair advised that this would be a document that is likely to be referred to regularly for the first few meetings and proposed that it should be reviewed in due course. ERT supported this proposal and it will be added to the forward planner.

2 Strategic Risk Register

03/01/19 MW presented the paper and the RSH strategic risk register which had been most recently reviewed and agreed by the RSH Board in November 2018. The register reflects the RSH becoming standalone and incorporates Corporate and Compliance risks which are now the direct responsibility of the RSH. He explained the remit of the Risk Review Group and confirmed that their last review confirmed that there were no changes in circumstances

which would necessitate a change to the portfolio of risks or associated inherent risk scores and risk appetite levels. Members challenged management on the risk appetite levels.

04/01/19 There was a discussion in relation to the work we do to help advise and influence government policy. In respect of regulatory assurance, work has started on developing an assurance framework.

05/01/19 The Chair suggested that it would be useful for the committee to identify particular risks and understand the controls and how they are being managed. The CE proposed that Executive officers will bring back a paper with suggestions of which areas would benefit from this “deep dive” approach ensuring they complement the IA plan. This approach was AGREED.

FM/MW

3 Internal Audit Plan

06/01/19 MC introduced the paper and members noted that the IA plan had been produced following discussions with the Deputy Director Finance and Corporate Services, the Accounting Officer and the Chair of ARAC. The plan covered a period of 2018/19 – 19/20, but the focus for this meeting was to agree the work for 2018/19. The plan focused on areas of RSH work which are key post separation from Homes England and until May 2019. The work is yet to start, however IA staff are geared up following sign-off from ARAC. ARAC AGREED the three business areas and the scope of each of the areas:

- Transition governance
- V1 to V2 re-grades
- Governance of Dynamics project

07/01/19 The areas for the 2019/20 plan are still subject to review through discussions with management to ensure the areas are aligned to the risk profile of the RSH. MC gave assurance that for areas such as lease based provider and consumer regulation, external expertise can and will be brought in if necessary and this provision has been covered off in the SLA.

08/01/19 MC confirmed that there were no outstanding audit control actions being carried forward pre-separation of the RSH from Homes England. The audit plan is starting afresh for the RSH. Assurance was given by the NAO that areas of key financial controls such as management overriding controls in areas such as manual journals, assets and liabilities, valuation of assets etc will be picked up by them when they review the financial statements. MC added that as the RSH get some services from Homes England as part of the SLA, those areas will also get assurance from the internal audit of Homes England.

09/01/18 The Committee considered the IA Charter and it was AGREED and signed.

10/01/19 The Chair thanked the IA team and stressed the importance of both internal and external audit teams working together to co-ordinate their call on RSH staff time and resources and to ensure there is a clear separation of lines of communication between RSH and Homes England.

4 Internal Audit Quality Self-Assessment

11/01/19 The Committee NOTED the self-assessment and GIAA report which provided assurance in relation to the level of operational compliance with Public Sector

Internal Audit Standards that the IA team achieve. MC advised that a similar exercise will be undertaken in respect of the work the IA team undertake for the RSH.

5 Opening balances

- 12/01/19 MW presented the paper which set out the draft opening balances for the RSH, which is the position as at 1 October 2018. The RSH will be required to prepare financial statements for the six months to 31 March 2019 and the balances as set out in para 8 of the paper will be the opening balances for the RSH financial records. The RSH will be adopting IFRS15 as its fee income falls within the scope of this standard. The NAO will review the opening balances as part of their interim audit work and MW flagged the possibility that the numbers could change following the NAO review.
- 13/01/19 The Committees' attention was drawn to two particular areas of judgement where the figures are particularly large – pensions and fee income.
- 14/01/19 **Pensions:** MW explained there were two pension schemes – the HCAPS and the Westminster scheme. The Westminster scheme was fully funded as at 30 September. For accounting purposes, the assets are valued on the same basis as for funding purposes. However the liabilities are valued on a different basis for accounting purposes than for funding purposes. MW explained that the discount rate used in the valuation for the accounts is based on bond yields whilst the discount rate used in the actuarial valuation is based on funds in a mix of equity, bonds and other deals. Consequently, as the discount rate for accounting purposes is lower than the discount rate for actuarial purposes, the valuation of the pension liabilities in the opening balances is greater than the valuation of the pension assets i.e. there is an accounting deficit on the scheme. As a result of this, the opening balances will show a net liabilities position which will be matched by net negative reserves, however, but will not necessitate additional pension contributions as this is purely for accounts purposes. SR stated that this was not an unusual position and there are other NDPBs in a similar position. He did however stress that we would need to have a very clear narrative in the report and accounts and recommended that management and ARAC need to consider the actuaries' assumptions and methodologies. The Chair recommended that this consideration is taken to the RSH Board as there is a wealth of pension expertise amongst Board members.
- 15/01/19 **Fee Income:** The invoices are sent out to providers in late February/early March, and the vast majority are paid within 30 days, however expenditure is spread over the financial year. MW explained to members the treatment of fee income and that we will recognise fee income to match expenditure in the accounts for the six months to 31 March 2019.
- 16/01/19 MW explained the treatment of Grant in Aid (GIA) which was financing rather than income and has no balance sheet impact. It is rather, cash in /cash out with monthly claims for GIA and adjusted at each period end. The accounts will separate out fee-funded and GIA-funded costs.
- 17/01/19 ARAC NOTED and AGREED the approach taken to the opening balances.

MW

6 NAO report

- 18/01/19 SR gave a verbal report as it was very early in the process of the NAO involvement with the RSH audit cycle. He confirmed the audit team would be:
Sajid Rafiq – Director
Sarah Dickinson – Audit Manager
Helena Long – Audit Lead
- 19/01/19 He advised that the team will be looking at the standards and internal controls before being able to finalise an audit plan. This will result in an extended timetable and therefore the RSH accounts will not be laid in Parliament before recess. He said this was not unusual and it was confirmed that MHCLG were aware of this. The CEO noted that RSH would also seek assurance from MHCLG that they were sighted on the delay and content with the approach. The NAO will present to the next ARAC meeting a report covering:
- RSH audit plan including timetable for audit visits which will require liaison with the Homes England and RSH finance teams;
 - Materiality levels;
 - Audit work on opening balances;
 - Timetable for audits which will need to fit in with the Homes England timetable.
- 20/01/19 SR advised members that that materiality thresholds will be lower for the RSH than for Homes England and confirmed that it would be possible to adjust the opening balances in RSH financial statements without necessarily adjusting for them in Homes England's financial statements. The Chair stressed the need for open dialogue with management to ensure there are no resource pinch points in the planning process.

8 Forward Planner

- 21/01/19 Members reviewed the forward planner, and in light of the proposed timetable for the laying of the accounts, it was AGREED that the meeting on 4 June will be cancelled. However, it was acknowledged that there might be a need for an additional short meeting for ARAC to sign-off the accounts in addition to the scheduled meeting on 24 June.
- 22/01/19 The forward planner will be regularly monitored for additional papers and in addition to the annual report to Board on ARAC, a verbal update will be given to the Board at the meeting immediately following an ARAC meeting and the minutes from that meeting will be shared with the Board at their next meeting.

9 Any Other Business

- 23/01/18 None.

Date of next meeting: 29 April 2019