

PUBLIC MINUTES

of the Homes England Audit & Risk Committee meeting
held at 9.45am on Tuesday 12 June 2018 at
Windsor House, London

Present:

Stephen Bell	Chairman	(by phone)
Teresa O'Neill		(by phone)
Simon Dow		

In attendance:

Nick Walkley	Chief Executive	
Chantal Geall	Chief Risk Officer	
Maria Craig	Head of Internal Audit	
Bayo Dosunmu	Executive Director of the Homes England Development Programme	
Isabella Freeman	General Counsel	
Jane Castor	General Manager, Finance & Performance	Items 1-5
Paul Scott	Deputy Head of Internal Audit	
Liz Butler	Regulation Committee Observer	
Sid Sidhu	Engagement Director, National Audit Office	
Tim Coburn	ALB Sponsorship, MHCLG	
Adam Cooper	Head of Help to Buy Accounting	Items 1-5
Steve Fox	Head of Financial Reporting	Items 1-5
Paul Murphy	Interim Senior Risk Advisor	Items 6-7
Ed White	Head of Research, Development and Strategy	Item 7
Mary Carter	Board Secretary	

Item 1 Minutes of previous meeting

01/06/18 The minutes from the meeting on 26 April 2018 were AGREED as a correct record.

Item 2 Matters Arising / Forward Planner

02/06/18 The Chief Executive Officer updated the Committee on recruitment.

04/06/18 The Engagement Director, National Audit Office reported that he had reservations over the timing of the MHCLG ARAC, which was being held 18 June, before NAO had finished its work, and before the Homes England Board had signed off its annual report and accounts on 21 June. He had conveyed those concerns to the MHCLG Chief Financial Officer and would raise them at the meeting.

Item 3 Valuations Exercise

05/06/18 The item was withdrawn.

Item 4 Annual Report and Accounts

06/06/18 The General Manager, Finance and Performance gave a presentation on the Annual Report and Accounts for 2017-18.

12/06/18 IFRS 9 would become effective for the 2018-19 reporting period. However, the Agency needed to disclose the effect of the standard in the 2017-18 Financial Statements and so an estimate had to be performed this year. This showed that the effect would not have been significant in 2017-18, but the introduction of a credit loss impairment model would have an increasing impact over time.

13/06/18 Members thanked the General Manager, Finance and Performance, and agreed to send any detailed observations on the text of the annual report and accounts to her in writing.

All

14/06/18 The Chief Executive congratulated the Regulation and Finance Directorates on the successful implementation of a Fees regime for Registered Providers.

15/06/18 The Committee **NOTED** the report.

Item 5 Draft Audit Completion Report

16/06/18 The Engagement Director, National Audit Office introduced the draft Audit Completion Report. The NAO had received the first draft financial statements for Homes England on 14 May 2018 as planned and were continuing fieldwork on the key balances and disclosures. The full audit completion report, setting out a comprehensive review of the findings of their audit as a whole, including any unadjusted errors, would be submitted to the Committee meeting on 21 June. Based on the results of NAO's work so far and assuming no significant issues are detected in outstanding areas, he expected C&AG certification to be issued on 28 June.

17/06/18 NAO had identified valuation of home equity investments as being a significant risk, but it had found that the assumptions made by management in their valuation were reasonable and supportable, and it agreed that the current methodology was the most appropriate in the present circumstances. They were also pleased to note that the sampling they had undertaken indicated that data quality had improved.

18/06/18 NAO's work on grants had indicated that two grant payments had been awarded, authorised and paid in advance of the relevant milestone being achieved. This was known by the Homes England officials who approved the claim, who granted a waiver from the normal scheme conditions as part of an established process, authorised by MHCLG. NAO would be checking that these projects met the criteria for use of this process.

19/06/18 NAO was discussing with Finance the insertion of a post-balance sheet note regarding the £400m fund that had been announced by the government for the

removal and replacement of dangerous cladding for councils and housing associations, which would be administered by Homes England. To date there were no further issues to report in any of the other significant audit areas. He suggested that the issues raised during the accounts discussion regarding staffing and the operating model should be reflected in the Governance Statement.

20/06/18 The General Manager, Finance & Performance confirmed that she would be adding a post-balance sheet note on the remediation grant, and on the Joint Venture. She would liaise with MHCLG to ensure that the notes in their respective accounts were consistent. JC

21/06/18 The Chief Executive asked NAO to raise the grant waiver issue formally, so he could respond as Accounting Officer. SS

23/06/18 The Committee NOTED the draft Audit Completion Report.

Item 6 Risk Update

24/06/18 The Chief Risk Officer provided a review of deliverables against 2017/18 Risk Objectives, and set out her initial proposals for 2018/2019. Risk had made steady progress across all its objectives; however, some tasks scheduled for completion within-year had not yet reached practical completion due to resource, infrastructure and engagement challenges. Most of the resource available had gone towards the necessary compliance and risk management tasks required during the year. She reported that it had been agreed in August 2017 that MHCLG would recruit a CRO for the department. This had not been progressed resulting in the CRO having to cover 2 roles for the year.

25/06/18 The Chair expressed his concern that progress in improving risk assurance had been slow over 2017/18. He noted that there was agreement over the fundamental areas of concern, which related to resources and tools and systems. He considered that the risk transformation plan might require external support, especially given the six month delay in recruiting 3 key posts, which the Committee had already discussed.

26/06/18 The Chief Executive considered that the risk assurance framework was sufficient in 2017/18, and that, in fact, Homes England's risk assurance systems were relatively advanced for the government sector. However Homes England had not made the progress it had hoped for, and would need to get this right as it transformed into a new organisation capable of managing a £20bn portfolio. He welcomed the challenge from the Audit & Risk Committee, and wanted the Board and Executive to continue to raise these issues with the government.

27/06/18 He agreed with the Chair that external support was required to take the work forward and to secure agreement with MHCLG and HMT. He was commissioning Boston Consulting Group to take this on.

He would report back to the Committee on progress in September 2018.

NW

28/06/18 Members discussed the challenges facing the Agency in trying to stay operationally safe, while at the same time creating a future state assurance process. They suggested a lens for BCG to consider the challenge: business as usual, remediation, future state, managing Help to Buy. They asked the Chief Executive to send the terms of reference for BCG's commission, once available, and they agreed to send any detailed comments on the 2018/19 plan to the Chief Risk Officer in writing.

NW
All

29/06/18 The Committee **NOTED** the report.

Item 7 The Indicative Early Warning Indicators Report

30/06/18 The Head of Research, Development & Strategy introduced the report, which contained a first section of early warning indicators from the demand side, with subsequent example pages focussing on capital markets, supply, sentiment and client. The information could be relatively quickly gathered, and he was satisfied that there were mechanisms in place to ensure the data was sound.

33/06/18 An Indicative EWI report would be brought to the next Audit & Risk Committee meeting

EW

34/06/18 The Committee **NOTED** the report.

Item 8 VFM Studies (Verbal Update)

35/06/18 The Chair reported that NAO had confirmed that there were no significant updates that required reporting at this meeting.

Item 10 Internal Audit Update Report

36/06/18 The Deputy Head of Internal Audit presented a report which updated on Internal Audit activity. The number of current actions had increased as a result of 8 reports being finalised since the last ARC meeting, but the percentage of overdue actions had decreased. There were still a number of reports in the drafting pipeline. The largest increase in actions was in the area of Land (attributable to the finalisation of the Programme Support and Public Sector Land Transfer reports). The primary theme of recommended improvements remained in the category of 'Control Design'.

37/06/18 The Committee NOTED the report.

Item 14 Internal Audit Annual Report and Opinion

38/06/18 The Head of Internal Audit introduced her annual report and opinion on the arrangements put in place by management in respect of governance, risk management and control for the period ending 31 March 2018. She reported Internal Audit had performed a programme of independent and objective reviews, in accordance with Public Sector Internal Audit Standards and other

work to provide assurance on the system of internal control. Internal Audit had also monitored management's progress in implementing agreed actions, which was summarised in the annual report.

- 39/06/18 The Annual Opinion report provided an overall Moderate Opinion, which confirmed that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk and control arrangements.
- 40/06/18 The Chair thanked the HIA and her team for the service performed during 2017-18. The Head of Internal Audit provided some additional narrative indicating her Opinion rating for each of the three elements of the overall Opinion, ie Governance, Risk Management and Control Arrangements. The Chair confirmed his satisfaction with the performance of the IA function and he and the Chief Executive both appreciated the narrative underpinning the opinion.
- 41/06/18 Members discussed the areas they would like to see Internal Audit focus its efforts in 2018-19. They suggested the Development Programme and its effects, Land Valuations, measurement of Benefit Realisation.
- 42/06/18 The Committee NOTED the results of the work undertaken for 2017/18 and the overall opinion on the effectiveness of the governance, risk and control arrangements within the Organisation.

Item 11 Annual Fraud & Error Report

- 44/06/18 The Committee NOTED the annual Fraud & Error report.
- 45/06/18 There was none.

Item 12 Annual Review of Information Risk

- 46/06/18 The Committee NOTED the annual review of Information Risk.

Item 17 Any other Business

- 47/06/18 There was no other business.

Following the meeting, a private session was held between members and the NAO.

Following the private session with NAO, a private session was held between members and the Head of Internal Audit.

Date of next meeting: 21 June 2018.

Chairman's signature:

Date: