



PUBLIC MINUTES
of the Audit and Risk Assurance Committee (ARAC) meeting
on Monday 26 June 2023 at 1000
via MSTeams

8 Remote and virtual participation

- 8.1 Any member may validly participate in a meeting through the medium of conference telephone, video conferencing or similar form of communication equipment, provided that all persons participating in the meeting are able to hear and speak to each other throughout such meeting, or relevant part thereof. A member so participating shall be deemed to be present in person at the meeting, and shall accordingly be counted in a quorum and entitled to vote.
- 8.2 A meeting shall be deemed to take place where the largest group of those members participating is assembled or, if there is no group which is larger than any other group, where the Chair of the meeting is.

Members

Liz Butler (LB)	Chair
Richard Hughes (RH)	
Kalpesh Brahmbhatt (KB)	

In attendance

Fiona MacGregor (FM)	Chief Executive
Jonathan Walters (JW)	Deputy Chief Executive and Accounting Officer
Richard Peden (RBP)	Director, Finance and Corporate Services
Emma Tarran (ERT)	Senior Assistant Director Head of Legal and Company Secretary
Mike Newbury (MN)	NAO, Engagement Director
Richard Smith (RS)	NAO, Engagement Manager
Lisa Harvey (LH)	Head of Internal Audit, Government Internal Audit Agency (GIAA)
Jenny Obee (JO)	Engagement Lead, Government Internal Audit Agency (GIAA)
Kasif Zaman (KZ)	DLUHC
Kirsty Marie-Morris (KM)	Board apprentice - observing

Minutes

Christine Kitchen (CK)	Committee Secretary
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1 Welcome and apologies

01/06/23 The Chair welcomed everyone to the meeting. There were no apologies, the Chair welcomed RS & KM to the meeting.

2 Declarations of Interest

02/06/23 There were no new declarations of interest.

3 Minutes of the last meeting

03/06/23 Subject to minor typographical errors, the minutes from 24 April 2023 were APPROVED.

4 Matters Arising

04/06/23 The actions were noted.

5 NAO Audit Plan

05/06/23 The document was taken as read by members and officers. MN introduced RS as the engagement manager for the RSH and advised that the audit lead and team are now in place and will begin working on the plan. NAO have done initial audit work and have established the significant risks that will drive the audit. The planning standard has been changed, so the new requirements will require more in-depth information and will frame the risk in a different way. Significant risks now are risks that would drive material misstatements. MN referenced the increase in the NAO fees for 2023-24, which he has discussed with RBP but said he would be happy to talk to the committee about to set out reasons for the increase.

06/06/23 RS picked up the discussion on risks. The audit plan would normally have been earlier in year but will be late again this year. So, the planning for finalising the ARA will be impacted as a result of the timing of the rest of NAO work, interim and then final audit. This year NAO will be doing both interim and final audits in one and this will be later in summer. RS confirmed that they have a lot of work to do. RBP/James Dunbar are discussing with the NAO, the timing to align with our timetable. Members were taken through the identified audit risks:

07/06/23

- Presumed audit risk –risk of management override of controls, which will be looked at carefully and addressed appropriately.
- Valuation of defined benefit pension schemes – timing dependent on auditors of pension schemes at the end of October/early November, which will impact on the NAO audit, but they plan to do lot of work in preparation.
- Changes in arrangements of hosting RSH finance systems – change in how accounts are saved – transfer process, will be areas of focus.
- Grant payment to provider – referred to as special payment – this area will be investigated as part of audit.

08/06/23 RS said that the plan has other areas too and asked if the committee accept the risks or any if there are other areas they expected to see. RBP flagged that the risks are mapped against strategic risks, but the committee should not take assurance from just the NAO audit work as there are other things, we do give assurance, and RBP/RS & MN have discussed this, and RS agrees. LB added that we get no timely assurance from NAO this year with their audits being so late, checking of balances at month 9 when finance systems changed would have been useful. LB also observed that NAO financial audit risks don't pick up RSH's key organisational risks.

09/06/23 LB picked up on the timing issue, which we cannot influence, but this year we will be working right up against Christmas. Summer holidays have already been affected, so potentially impacting Christmas holidays is not acceptable. RS advised that NAO plan to complete their field work between August and October, then finalise the audit when pension information is received which is expected at the end of October/early November, but this is outside of NAO's control. NAO aim to have all done over summer and RBP sought clarity of their

definition of summer, as due to planned staff leave, RSH could not respond to audit queries before the August bank holiday. We need to confirm ARAC meeting dates to deal with the aspects of the audit within NAO control, accepting that the LGPS audit clearance may be delayed. LB flagged that there are two mentions, within control work, to making an assessment of the RSH collection systems complexity and sought clarity that this will not be done twice. RS advised that there will need to be one for each financial information system, payroll & A/C payable/receivable. RBP noted that given the second finance system is the Department's system, and NAO will have already done their audit of the Department which should reduce the requirement for testing in some areas. RS confirmed that they will look at the system as part of the Department's' audit but do look at our interaction with that system. MN accepted RBP's point on duplication, but NAO do have to update RSH's files on the audit, and gave assurance to ARAC, they will not be undertaking any unnecessary work for us. LB also sought assurance that the NAO audit work on all areas will be done by the same team who understand the complexities, and NAO gave this assurance. It was AGREED that a hard end date in November is confirmed for when the fully completed audit is presented, together with the GT information if possible.

- 10/06/23 *Audit Fees:* RH picked up the very large increase in the NAO fees. He expressed his concerns that despite the fall in service standards for, what will be two years, fees are going up so dramatically. We recognise that we do not have the ability to use alternative auditors but challenged the rationale for the increase given there are only two systems (pension and payroll) that are main areas of audit. Also, loss recovery has never been discussed and it is concerning that on the present trajectory the fees will be increasing more going forward. LB added her concerns that fees keep increasing, but there is little transparency of cost recovery process, and we cannot test the cost benefit. She accepted that audit costs have increased, but this is sharp rise, especially as ours is a low-risk audit .
- 11/06/23 MN responded and accepted the challenges. He indicated that as the new engagement manager there were a number of audits where there has been historical under recovery and was therefore in a position that the costs for the work have greatly exceeded the fee for work. He accepted it is wholly inappropriate that audit planning is so out of date. Budget for fees was set a while ago, so cannot charge retrospectively, and apologised that there has not previously been a conversation on the deficit position. He recognised the circumstances of this year, but explained that the audit will still deliver a deficit even with proposed increase, and he will have to defend the deficit to NAO finance dept. He accepted the challenge to be as efficient as possible and to try and reduce the fees should work not need as much time as planned for. MN said he is accountable to the Auditor General to provide good quality audit at cost. There is no cross subsidy, so the fee relates entirely to our audits. There are cost pressures on audit fees generally, and the NAO are having to do more work in relation to pension funds, to meet the pension auditors' expectations.
- 12/06/23 RBP said that we regularly get new audit staff who are not familiar with the RSH and therefore there is a risk that we are over audited on our risks which have not changed. He asked that the NAO show preparedness to discuss before the end of 2023, the 2024-25 fee level, in order for us to be able to plan ahead. MN agreed to get a date for this discussion. MN said that the NAO

commitment is only to charge to deliver audit and cover costs and confirmed that the NAO will bear the costs of any inefficiencies.

6 Internal Audit Progress report

- 13/06/23 LH presented the regular GIAA update and also the Annual Opinion and took the papers as read. She would present progress against 2022-23 plan and confirmed all planned audits were completed by the end of April. The stakeholder expectations audit has been finalised since the last meeting. The planned delivery for 2023-24 is on schedule, with two audits in Q1 and she confirmed both are at the field work stage currently and reports will be presented to the October meeting.
- 14/06/23 Assurance levels remain high, with two substantial ratings and two moderate ratings to date, which will contribute to the Substantial Assurance rating in the Audit Opinion.
- 15/06/23 JO presented the audit report. Four recommendations are not yet due, four had their due date extended by management and two relate to data collection. There were no concerns on the system related recommendations as they related to the transfer to the new system, but management were encouraged to endeavour to meet due dates, particularly relating to procurements, which should improve with the appointment of the procurement manager. Work on the procurement manual is progressing well.
- 16/06/23 The managing stakeholder expectations audit is completed, and the committee noted the three fold objectives of the audit. A rating of substantial assurance was confirmed. KB asked how GIAA reconcile their assurance ratings with the Strategic Risk Register which had this risk flagged red as out of appetite. JO advised that the audit was in this area, but acknowledged it was a risk area that will maintain. There is a separate audit planned to look at proactive analysis of the sector. FM confirmed that GIAA had delivered on the scope of this audit and suggested the wider discussion round the strategic management of risk is better had at Board. It was suggested that the title of the audit was not clear. She also suggested that the report might have benefitted from including a list of whom had been consulted during the audit.

7 Internal Audit Annual Opinion

- 17/06/23 LH reported that GIAA have completed the first-year programme of work and now has a very good understanding of the RSH. GIAA are pleased to give the RSH a rating of substantial assurance in the report to March 2023. This is based on evidence seen during the audit work, oversight of assurance and observation of papers and meetings. In their view the RSH is a well-managed and governed organisation. LB said that the distribution of opinion is much as it was last year, and clarified that assurance is not based on green audits from last year and that we should aim audits at areas of risk, but just areas that might not be high risk.
- 18/06/23 LB – thanked LH and JO for their reports.

8 Draft RSH Annual Report and Accounts 2022-23

- 19/06/23 RBP flagged that ARAC review the accounts and the Board review the whole annual report and the accounts. the timing of committee and Board review will be impacted by the NAO audit, but officers thought it would be helpful for the committee to have an early sighting of the documents. He picked out from the accounts that the pensions scheme balance has moved from deficit to surplus. LB agreed that it is helpful to review early to ensure it records the vagaries of pension reporting with disclosures where possible.
- 20/06/23 KB queried the potential to have the forward look on the cash flow flagged as a potential risk. RBP advised that is a delegation from the Department and we are required to accept it. The paper on the budget to Board showed that there were no issues and is not an abnormal position. Removal of GIA is not a problem, as we will be fully fee funded, so we will not need GIA and be fully covered by full cost recovery.
- 22/06/23 LB congratulated RBP and the team for a very good document.

9 In-dept assurance - Whistleblowing

- 23/06/23 The paper which had been prepared by ERT and RBP was taken as read. It covers two areas –whistleblowing disclosures to RSH as a prescribed person and staff whistleblowing. ERT spoke to the former. In essence we deal with this when we get referrals. All referrals are taken seriously and are carefully reviewed.
- 24/06/23 The latter had been asked about by RH, following the CQC case, and RBP spoke to this. We have very little evidence of staff raising whistleblowing concerns. Staff bodies have ways to refer concerns to management and we have lots of forums - IDA, stock take panel etc. – which allow challenge and corporate decision-making. We are currently reviewing the staff guidance, and then will offer more training.
- 25/06/23 RH said whistleblowing is a cultural thing. He queried the reference to hierarchy and checking processes and RBP clarified that it referred to the process when judgments are made and having a number of levels of checking as part of our QC and QA process. ERT added that in general (not specifically at the regulator), staff often confuse raising a grievance with being a whistleblower. We have had no Employment Tribunal claims based on whistleblowing in recent years.
- 26/06/23 Members thanked ERT and RBP for a very clear and helpful report.

10 Forward Planner

27/06/23 Members and officers discussed the forward planner and the following decisions agreed:

- *October 2023* – extend by half hour. Meeting will take routine ARAC business. The ARA will be considered at a meeting in November, along with the governance statement. Sign-off of the ARA cannot be confirmed till we hear back from the NAO.
- *In-depth assurance topics*: RBP to consider doing a forward plan for potential topics and also cross reference to the strategic risk register. Think about expectation gap.
- Forward looking audit to get assurance.
- Horizon scanning processes

28/06/23 RH enquired about progress with pensions and whether moving away from a final salary pension scheme might impact recruitment and RBP did not think it would have a great impact. It was agreed that the active strand of pension discussion should sit with the N&GC who will feed back to Board.

12 Any other business

29/06/23 There were no other matters of business. LB thanked everyone for their attendance and contributions to the discussions.

Date of next meeting: 16 October 2023 – cancelled and changed to 27 November 2023