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Title: Audit and Risk Committee Annual Review

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Paper for Information

Open paper

1. Terms of reference

- 1.1 The terms of reference of the Audit and Risk Committee (ARC) are comprehensive and reviewed by the Board annually.
- 1.2 The role of the Committee is to support the Board in its responsibilities relating to the strategic processes for risk, control, and governance. It takes the lead in relations with the internal and external auditors. It also provides support by reviewing the comprehensiveness of assurances which meet the Authority's and Accounting Officer's needs in relation to the accuracy and integrity of the annual accounts.
- 1.3 In February every year the Committee agrees a detailed workplan which ensures that all aspects of the terms of reference are covered during the year.

2. Committee Membership

- 2.1 The Board members who have served on the ARC between April 2023 and March 2024 are Frances Done (Chair), Tom Frawley, and Nick Simkins.
- 2.2 Frances Done is due to stand down as a Board member and Chair of Audit and Risk Committee at the end of July 2024. A recruitment process for her successor is currently underway.
- 2.3 The Committee has previously considered whether it has the necessary skills and experience to cover the areas for which it is responsible. The only area of expertise identified as a weakness for the membership at that time was that of ICT/cyber security. Since then, the addition of Nick Simkins to the Committee has improved the level of up-to-date knowledge and awareness in this area. The Committee regularly receives external expert advice on these matters and the authority obtains an annual externally validated Cyber Essentials

certification which is reported to the Committee. Attention will continue to be given to this area and if necessary the Committee will consider further measures to ensure that the Committee has the necessary skills to cover its remit.

- 2.4 The Director of Corporate Services (DCS), Executive Assistant and the Corporate Services team have continued to provide excellent support to the Committee, with good quality papers circulated on time, enabling the Committee to operate effectively.
- 2.5 Members of the Committee have continued to undertake their role on the Committee with the necessary commitment with excellent attendance. Training and development opportunities are offered to the Committee members as part of the Board training programme and as requested by individual members.
- 2.6 The Chair of the Committee regularly liaises with the Director of Corporate Services and the Chief Executive, and with the internal audit engagement partner and manager. She also meets as necessary with the external audit engagement partner and manager, particularly in relation to the annual audit of the PSA's accounts.

3. Meetings

- 3.1 The Committee meets four times a year with two meetings focussed largely on matters relating to the authority's annual report and accounts and the related assurance processes. The opportunity is taken for the Committee to look more closely at key risk issues during other meetings, via 'deep dives'. This has continued during 2023/24, this year comprising a discussion on risk management, resulting in advice to the Board, and on business continuity planning which was especially important due to the many changes that have taken place during the year in relation to office accommodation and ICT systems.
- 3.2 Due to the nature of ARC meetings which involve the need for members to offer both support and appropriate challenge, and the number of people who need to attend, the meetings are held in person with virtual attendance kept to a minimum. The Committee appreciates the willingness of both internal and external audit representatives to attend in person as far as possible.
- 3.3 At the Committee meetings the approach adopted by members is to provide both support and challenge to the Executive in relation to the important areas under discussion. The Director of Corporate Services and Chief Executive always respond constructively and in a non-defensive manner to matters raised by the Committee. Discussions are appropriately robust, and contributions are welcomed from all attendees.
- 3.4 At the end of each meeting the Committee members take the opportunity to meet in private with either the internal auditors, the external auditors, or the DCS/Chief Executive to discuss relevant matters confidentially.
- 3.5 In March 2023 the Board received the results of an independent Board Effectiveness review and subsequently agreed an action plan in order to implement the agreed recommendations. This included proposals to improve the quality and monitoring of actions identified at Board and Committee meetings, and these have all been implemented by the Committee. There was

also a recommendation that the Committee's deep dive discussions should always have a clearly defined purpose and this has also been implemented.

4. Providing assurance to the Board

- 4.1 The ARC undertakes the Board's liaison with internal audit which is a key provider of assurance in relation to risk, control, and governance. The Committee approves, and contributes ideas for, the annual internal audit programme and has maintained a close liaison with the internal auditors, RSM.
- 4.2 The Committee also maintains a good relationship with the external auditor, the NAO, and pays particular attention to the range of assurances that the Board needs in relation to the annual report and accounts.
- 4.3 The Committee focusses strongly on strategic risk, regularly interrogating the risk register maintained by the Executive Leadership Team and draws the Board's attention to any important issues and encourages the Board to engage in thorough discussions on risk on a regular basis. The Board most recently did this at its January 2024 meeting following advice from the Committee when it also considered an internal audit report on risk management. As a result the Board has decided to review its approach to determining its risk appetite and that work is ongoing.
- 4.4 The ARC minutes are circulated promptly after each meeting to all Board members and a summary of the meeting is submitted to the next available Board meeting. Any immediate issues of concern are discussed with the Chair and Chief Executive.
- 4.5 In considering its own effectiveness, committee members and others supporting the Committee have previously completed the NAO Audit Committee Effectiveness questionnaire. This is a very comprehensive document and therefore the Committee decided that this exercise did not need to be repeated every year. However, as a new member of the Committee Nick Simkins was asked to review the questionnaire and provide feedback on any areas where the Committee may fall short of best practice. The areas he identified were in relation to co-opting specialist members; tracking emerging developments; and recording 'near misses'. The Committee has previously discussed the potential benefits of co-opting an independent member with additional expertise. However, it was considered that this was unnecessary at this stage, particularly bearing in mind that at the PSA the Scrutiny Committee provides a significant level of additional scrutiny/challenge compared to other organisations. Tracking emerging developments is something that the Board has taken a greater interest in lately and this has been the subject of Board discussion as to how best to achieve it and respond appropriately. Finally, in relation to the NAO's questions about recording and reviewing 'near misses', in the context of the PSA this work lies more within the terms of reference of the Scrutiny Committee.
- 4.6 The internal audit contract also includes a requirement that the appointed internal auditor helps the Authority to learn from the other organisations in the internal audit consortium (Ofqual, Ofwat, Office of the Rail Regulator and the General Dental Council). Following the appointment of a new Audit and Risk Committee Chair later in 2024 this may well offer new opportunities for the ARC to learn and develop.

4.7 When the workplan for the 2023/4 was approved there were some particular areas of focus for the Committee;

- **business continuity preparedness** once the Authority had navigated both a new office and new ICT arrangements. In response the Committee considered this in detail at its February 2024 meeting and was satisfied with the approach to business continuity led by the Executive Leadership Team, the testing that had recently taken place, and the planned follow-up of actions arising
- following up points arising from the Audit Committee effectiveness review including taking a view about the extent to which the **PSA's contribution to environmental and social responsibility needs further development** bearing in mind the Authority's role and small size. In response to this the Board during the year determined that the level of attention being given to this area by the PSA was appropriate to its size and remit
- ensuring that the Committee pays sufficient attention to areas of risk relating **to ICT/Cyber Security**. In response to this the Committee has continued to take sufficient interest in information security matters and the annual Cyber Essentials accreditation process and continues to ensure that this area of work is regularly included in internal audit plans.

5. Conclusion on Committee Effectiveness

5.1 Taking account of the above, the Committee has concluded that it is operating effectively. However, during 2024/5 it will benefit from the expertise and new approaches brought by the new Chair, and it will take the opportunity to learn from other ARCs.