

## **Audit and Risk Committee's Report to the members of the IMechE May 2023**

This report is for the year 2022 but incorporates the Committee's activities in the first four months of 2023 as well.

The Committee worked at its full strength for the greater part of the period. It held seven meetings in 2022, of which the November meeting was face-to-face. The Chair also had several meetings with staff and statutory External Auditors to ensure that governance norms were followed for the 2021 and 2022 Annual Accounts.

The activities of the ARC are delegated to it through its TOR by the Trustee Board (TB). Primarily it seeks to provide the TB with an independent, oversight view of identification and management of risks, internal audit (IA), external statutory audit, as well as of Health and Safety (H&S) compliance and corporate insurance policies.

Staff support to the ARC – for its oversight of external audit, risk, IA and insurance - has reverted to the Governance unit from 1 Jan 2023.

### **Risk Register and Risk Management**

An important activity this year was establishing a restructured Corporate Risk Register (CRR) beginning with detailed identification, classification and evaluation; and undertaking a systemic approach to Corporate Risk Management (CRM). The CRR comprises the most important risks in IMechE; their risk scores; how they are to be managed; and staff assigned to take control of managing/mitigating each risk to an acceptable level. It is prepared by staff and considered by the Executive Team of Directors and the Chief Executive. There is a subordinate, larger, Departmental Risk Register (DRR) that is compiled, graded and managed in the same manner. The ARC's role is to provide oversight of the process and provide guidance as necessary. While the focus is on the CRR, oversight of the DRR by the ARC is required too to avoid anomalous situations.

To enhance risk consciousness and risk management in the IMechE holistically, during the identification phase staff have contacted major HQ Boards and Committees (B&Cs) about risks. Valuable initial insights have been received. That process of involving B&Cs in identification will continue for six-nine months this year and will then settle into a normal annual routine.

With a Senior Risk Officer of considerable experience in position there will be substantial value addition to risk identification and CRM.

There are 17 risks in the CRR presently. Details are in the [Annual Report](#) of the TB. The highest are those pertaining to a cyber-attack and the condition of the HQ building. All risks barring that pertaining to the building have mitigations scheduled to get them to acceptable levels. For the HQ building measures are being taken to avoid disasters, such as netting to prevent dislodged tiles falling. However, the HQ and building systems need rehabilitation, replacement or other measures taken that require a vote by members. This is being processed with financial prudence.

## **IA Programme**

The Trustee Board approves the annual plan. If there are exigencies that require changes urgently the ARC would be informed and, in turn, the Trustee Board. A reporting dashboard has been prepared to assist with the ARC's oversight reviews of IA findings and observations, together with action taken by the staff and B&Cs concerned. The ARC reviews these matters every quarter after the Directors' Team does so.

## **Corporate Insurance Policies**

Insurance policies of the Institution are reviewed and renewed each year. They need to reflect certain aspects of the risks we face that are in the CRR, as well as some contingent matters that are not present as risks in the CRR. Premiums are likely to increase by about 16.8% in 2023. This has been caused by factors related to IMechE's HQ building condition as well as the insurance market hardening during 2022.

## **Health and Safety**

The Institution's H&S compliance with regulation is generally satisfactory in structure, staffing, training and reporting – except that the HQ building is a constant source of concern.

## **What is Being Achieved and What Lies in the Future?**

The ARC has successfully established a systemic and comprehensive approach to all of its tasks. Many of these are governance related.

For instance, there have been ARC meetings with external statutory auditors without staff present and vice-versa.

Changes have taken place in institutional structures through implementing the three internal reviews of 2017-18. The ARC is encouraging institutional links within IMechE to improve its cohesion during its IA oversight activities. Another aspect of the ARC's activities is related to providing inputs on matters such as potential risks of the options for dealing with the state of our HQ building.

This year the Trustee Board will decide on a methodology to conduct a review of its activities. In the interim a review of the ARC's TOR was conducted. The collective experience of its members over three years has been incorporated in [Terms of Reference](#) that were approved in April 2023.

The ARC is properly supported by staff. Systems have been established to conduct oversight activities consciously and independently. From here the stage is set to make qualitative improvements and assist the Institution in moving towards logical risk management e.g. a combination of policies, strategic planning, insurance, accretion of funds, expenditure, etc. This is an important aspect of the ARC's future oversight of CRM tasks.

**Vijay Raman, Chair of the Audit & Risk Committee**