

Audit Committee

Date of Meeting	Monday 4 February 2019
Paper Title	Review of Committee Terms of Reference
Agenda Item	8
Paper Number	AC4-D
Responsible Officer	Penny Davis, Board Secretary
Status	Disclosable
Action	For Decision

1. Report Purpose

- 1.1. Review the Committee's Terms of Reference in the light of changes in 2018 to the Audit Committee Handbook.

2. Recommendations

- 2.1 The Committee is invited to **consider** the report and agree any recommendations to make to the Board regarding the Committee's Terms of Reference.

3. Background

- 3.1. The Committee was advised at its last meeting that changes made to the Scottish Government's Audit Committee Handbook in 2018 may have implications for its terms of reference.
- 3.2. The Committee requested a report be brought to its February 2019 meeting.
- 3.3. A report on changes published last year by Scott-Moncrieff is attached for reference at Appendix 2. The full handbook may be accessed via the following link:
<https://www.gov.scot/publications/audit-assurance-committee-handbook/>
- 3.4. An overview of changes is provided below and suggested amendments to the Terms of Reference are highlighted in red at Appendix 1.

4. Overview of Changes

- 4.1. Revisions to the handbook are largely directed towards increasing the focus of audit committees on developing an effective assurance framework. They do not alter the functions of the Committee so much as re-focus the approach taken to fulfilling those functions.
- 4.2. The Committee should have a clear understanding of, and framework in place for, the sources of assurance it receives and the roles the different assurance providers fulfil.

4.3. To that end, its terms of reference should refer both to the assurance framework being in place, and to establishing and promoting effective relationships, communications and reporting to make the framework meaningful.

4.4. The Handbook advocates a “three lines of assurance” model. The following is an extract from the revised Handbook, outlining this approach.

A well designed assurance framework will help. At its simplest, this will identify all the key sources of assurance in the organisation and seek to orchestrate them to best effect. This can help to ensure that gaps are reduced or eliminated and unnecessary duplication avoided. A conceptual model that is often used to help to categorise the various sources of assurance is the 'three lines of assurance'. By defining the sources of assurance in three broad categories, it helps to understand how the type and nature of the mechanisms can contribute to the bigger assurance picture:

First line: management assurance from "front line" or business operational areas;

Second line: oversight of management activity, including effective management information, separate from those responsible for delivery, but not independent of the organisation's management chain; and

Third line: independent and more objective assurance, including the role of Internal Audit and from external bodies (e.g. accreditation and Gateway reviews)

4.5. Amendments have been suggested in the attached Terms of Reference to accommodate this new emphasis on an assurance framework.

4.6. Further, minor amendments are suggested to reflect the guidance in the Handbook and the Committee’s own normal practice of holding a minimum of four, rather than three, meetings per year, and to appoint a committee chair with relevant experience.

4.7. The Committee is invited to consider these, and any other changes it may feel are appropriate, to allow for proposed amendments to be taken to the Board for approval in March.

5. Risk Analysis

5.1. Reviewing the terms of reference regularly and ensuring these are consistent with current guidance helps to mitigate *GCRB Risk 011: The capacity and capability of the Board is inadequate and standards of governance fall below the level required, and GCRB Risk 012: There is a breach of legislation/guidance/code of practice and this results in a failure of governance.*

5.2. No new risks have been identified.

6. Legal Implications

6.1. There are no specific legal implications associated with this paper.

7. Resource Implications

7.1. There are no resource implications associated with this paper.

8. Equalities Implications

8.1. There are no new equalities implications arising from this paper.

9. Strategic Implications

9.1. There are no implications specific to the Regional Outcome Agreement or Strategic Plan associated with this paper.

Glasgow Colleges' Regional Board

**Audit and Assurance Committee
Terms of Reference**

1. CONSTITUTION

- 1.1** The Audit and Assurance Committee is constituted as a committee of the Board of the Glasgow Colleges' Regional Board (hereinafter referred to as the Board).
- 1.2** The committee's terms of reference may be amended at any time by the Board.
- 1.3** The committee may from time to time investigate, discuss or review matters outside its terms of reference if required to do so by the Board.

2. AUTHORITY

- 2.1** The committee is authorised:
- a) to seek any information it requires from any employees of Board in order to perform its duties;
 - b) to obtain, at the Board's expense, outside legal or other professional advice on any matter within its terms of reference;
 - c) to co-opt members for a period of time (not exceeding a year, and with the approval of the Board) to provide specialist skills, knowledge and experience which the committee requires at a particular time;
 - d) to invite any person to a meeting of the committee as and when required;
 - e) to have the right to publish in the directors' annual report details of any issues that cannot be resolved between the committee and the Board; and
 - f) to seek any information from its colleges which it may reasonably require for the purposes or in connection with the exercise of any of its functions.

3. MEMBERSHIP

- 3.1** The committee shall be appointed by the Board from amongst its members and shall consist of not less than three members, at least one of whom shall have recent and relevant financial experience.
- 3.2** Members must be non-executive or independent.¹
- 3.3** The Chair of the committee shall be appointed by the Board, and shall have experience relevant to the role.

¹ Full committee members must be non-executive members of the Board. The separate reference to independent members allows for the inclusion of co-opted members who are not non-executive members of the Board but are nonetheless independent of the organisation.

- 3.4 The Chair of the Board shall not be a member of the committee.
- 3.5 Appointments to the committee shall be for a period of up to two years, which may be extended for further periods of up to two years, provided the member still meets the criteria for membership of the committee.
- 3.6 The Board Secretary is secretary to the committee.

4. ATTENDANCE AT MEETINGS

- 4.1 The quorum necessary for the transaction of the business of the committee shall be at least two committee members.
- 4.2 Only members of the committee and other members of the Board have the right to attend committee meetings. However, other individuals such as the Chair of the Board, members of the Board's staff, Assigned College Principals and Assigned College staff may be invited to attend all or part of any meeting, as and when appropriate. If other members of the Board attend a meeting of the Committee, they do not have voting rights.
- 4.3 At the request of the committee a representative of the external and internal auditors shall attend meetings.

5. FREQUENCY OF MEETINGS

- 5.1 Meetings shall be held at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.

6. NOTICE OF MEETINGS

- 6.1 Meetings of the committee shall be called by the Secretary at the request of any of its members or at the request of the external or internal auditors if they consider it necessary.
- 6.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed and supporting papers, shall be forwarded to each member of the committee, any other person required to attend, no later than five working days before the meeting.

7. MINUTES OF MEETINGS

- 7.1 The Secretary shall arrange for a minute to be taken of the proceedings and decisions of all meetings of the committee, including recording the names of those present and in attendance.

- 7.2 The draft minutes of committee meetings shall normally be considered at the Board meeting immediately following the committee meeting.

8. RESPONSIBILITIES

- 8.1 The Audit and Assurance Committee shall support the Board and Executive Director by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report.

- 8.2 The committee shall advise the Board and Executive Director on:

- a) the strategic processes for risk, control and governance and the governance statement;
- b) the accounting policies, any significant changes to them, and any significant estimates and judgements;
- c) the accounts, and the annual report of the Board, including the process for review of the accounts prior to submission for audit, levels of error identified, the clarity and completeness of disclosures, and management's letter of representation to the external auditors;
- d) the planned activity and results of both internal and external audit;
- e) the adequacy of management response to issues identified by audit activity, including external audit's management letter/report;
- f) the effectiveness of the internal control environment;
- g) the assurance framework in place and assurances relating to the corporate governance requirements for the organisation;
- h) proposals for tendering for internal audit services or for purchase of non-audit services from contractors who provide audit services; and
- i) anti-fraud and bribery policies, whistle-blowing processes, and arrangements for special investigations.

- 8.3 The Audit Committee shall:

- a) review the adequacy and security of arrangements for employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- b) review procedures for detecting fraud;
- c) review systems and controls for the prevention of bribery and receive reports on non-compliance;
- d) review arrangements proposed for special ad hoc investigations;
- e) monitor the effectiveness of external audit and report its findings to the Board;
- f) consider planned external audit activity and the level of co-ordination and engagement between internal and external audit.

- 8.4** In relation to internal audit, the Audit Committee shall:
- a) monitor and review the effectiveness of the internal audit function in the context of its overall risk management system;
 - b) make recommendations to the Board for the appointment and removal of the internal auditor;
 - c) review and assess the annual internal audit plan;
 - d) review reports from the internal auditor;
 - e) review and monitor the executive's responses to the findings and recommendations of the internal auditor;
 - f) meet the internal auditor at least once a year, without the executive being present, to discuss the remit and any issues arising from the internal audits carried out. The internal auditor has the right of direct access to the Chair of the Board and to the Audit Committee.
- 8.5** In relation to the assigned colleges the Audit Committee will advise the Board and Executive Director on:
- a) The annual reports received from the assigned colleges' heads of internal audit;
 - b) Any notification in relation to the appointment, removal or resignation of an internal auditor; and
 - c) Any enquiries or monitoring of the assigned colleges including but not limited to situations where access to the colleges' external auditors may be required or where reports from the assigned colleges internal audit function are being considered.
- 8.6** The Audit Committee will also periodically review its own effectiveness and report the results of that review to the Board and the Executive Director.

9. COMMUNICATION AND REPORTING PROCEDURES

- 9.1** The committee shall receive business update reports from the accountable officer, and reports from other sources identified within the assurance framework;
- 9.2** The committee shall receive a report on GCRB compliance with the Code of Good Governance annually from the GCRB Secretary and report findings as necessary to the Board.
- 9.3** The committee shall ensure that provision is made for periodic informal discussions outwith the formal meetings of the committee, between the Chair, accountable officer, external and internal auditors, as appropriate.
- 9.4** The committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.

- 9.5** A report of the committee's discussions shall be considered at the Board meeting following the committee meeting. A copy of minutes of the meeting may form the basis of the report.
- 9.6** The committee will provide the Board with an Annual Report, timed to support finalisation of the accounts and the governance statement, summarising its conclusions from the work it has done during the year.
- 9.7** The committee shall inform the SFC audit committee if it considers that it has identified a significant problem that may have wider implications for the FE sector or public sector.

10. OTHER MATTERS

- 10.1** The committee shall:
- a) have access to sufficient resources to carry out its duties, including access to the board secretariat for assistance as required;
 - b) be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
 - c) oversee any investigation of activities which are within its terms of reference; and
 - d) review its constitution and terms of reference, at least annually, to ensure it is operating at maximum effectiveness and report the results including recommendations of any changes it considers necessary to the board for approval.



Audit Committee Handbook

Summary of 2018 changes

May 2018



Scott-Moncrieff
business advisers and accountants

Audit Committee Handbook

Summary of 2018 changes

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Overview

The Scottish Government issued an update to the Audit Committee Handbook (ACH) in April 2018. This included a number of minor amendments as well as one major addition that impacts upon a number of aspects of governance and audit committee responsibilities.

The key change within the amendment is the increased responsibilities for the audit committee to clearly set out its assurance framework and to understand the various sources of assurance they receive and the roles that those assurance providers play. The new ACH advocates using the ‘three lines of defence’ model to help articulate this framework. The full requirements are contained within Chapter 4 of the ACH.

These changes mean that Audit Committees will need to:

- Refresh their Terms of Reference to comply with the changes outlined in the new ACH
- Develop an assurance framework and consider whether there are gaps or overlaps in the assurance that they are receiving
- Consider training audit committee members on the new assurance framework and other changes to the ACH (to meet the new requirements introduced within Annex G)

Full details of all changes to the ACH are contained within this paper.

Changes to main body

Chapter 1: Good Practice Principles for Audit and Assurance Committees

The role of the audit committee has been removed as a principle and the Role and Scope principal has been extended to include the following paragraph:

“The committee should support the Accountable Officer and Board by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report.”

Chapter 2: Membership, Independence, Objectivity and Understanding

As there is no longer a principal for the audit committee it has been removed and chapter two for 2018 is chapter 3 in 2008.

Independence

The 2018 handbook provides more explicit detail on who should make up an audit committee it states:

“The Accountable Officer and Board should be supported by an Audit and Assurance Committee with no executive responsibilities, comprising of at least three members. The Chair should be a Non-Executive Member (NEBM) [sometimes called a Non-Executive Director (NXD)] with relevant experience. There should be at least one other NEBM/NXD on the committee; when there are insufficient NEBMs/NXDs to form the committee, independent external members will need to be appointed.”

Relationship with the Executive of the organisation

The 2018 handbook has an extra paragraph under this section which states:

“It is also good practice for the Chair of the Audit and Assurance Committee to meet the Accountable Officer, the Finance Director, the Head of Internal Audit and the External Auditor’s senior representative outside of the formal committee structure (see Chapter 5: Communication and Reporting).”

Terms of appointment

The section is expanded to detail that members should also have a clear understanding of:

- *“Training required and how this will be provided.”*

Chapter 3: Skills

Range of Skills

The 2018 handbook adds in an additional bullet point which states that:

“3.4 Although Audit and Assurance Committee members are recruited for their individual skills, it is vital that they are able to work collaboratively.”

Training and development

The 2018 handbook adds another paragraph which states;

“The Chair should, in addition, ensure that all committee members have an appropriate programme of engagement with the organisation and its activities to help them understand the organisation, its objectives, business needs, priorities and risk profile. Consideration should be given to underpinning such programmes with training and/or learning plans.”

Chapter 4: Role and Scope

The section titled ‘Overall Assurance’ in the 2008 Handbook has been removed from the 2018 handbook. The 2018 handbook has added a section which is noted below:

Supporting the Board and Accountable Officer

“4.1 Accountable Officers and Boards have many issues competing for their attention. One of the challenges they face is knowing whether they are giving their attention to the right issues. Key to addressing this is assurance, defined as: “an evaluated opinion, based on evidence gained from review, on the organisation’s governance, risk management and internal control framework”

4.2 Assurance draws attention to the aspects of risk management, governance and control that are functioning effectively and, just as importantly, the aspects which need to be given attention to improve them. An effective risk management framework and a risk-based approach to assurance helps an Accountable Officer and Board to judge whether or not its agenda is focussing on the issues that are most significant to achieving the organisation’s objectives and whether best use of resources is being made. The Audit and Assurance Committee can help the Accountable Officer and Board to formulate their assurance needs, and then consider how well assurance received actually meets these needs by gauging the extent to which assurance on risk management is comprehensive and reliable. Assurance cannot be absolute so the committee will need to know that the organisation is making effective use of the finite assurance mechanisms at its disposal, targeting areas of greatest risk. This can include carrying out a ‘Deep Dive’ exercise of risks that the committee determine are key threats to the organisation.

4.3 Formulation of the specific assurance need is key to determining the resource that needs to be dedicated to delivery of assurance in the organisation. Key elements include:

- *The strategic outcomes and objectives which the organisation is charged to deliver, and the associated risks and control mechanisms;*
- *The sources of assurance available; and*
- *The level of confidence required in assurances, including the extent to which the range of assurance providers can be relied on by Internal Audit in delivering its overall opinion on risk, control and governance in accordance with the Public Sector Internal Audit Standards.*

4.4 A well designed assurance framework will help. At its simplest, this will identify all the key sources of assurance in the organisation and seeks to orchestrate them to best effect. This can help to ensure that gaps are reduced or eliminated and unnecessary duplication avoided. A conceptual model that is often used to help to categorise the various sources of assurance is the ‘three lines of assurance’. By defining the sources of assurance in three broad categories, it helps to understand how the type and nature of the mechanisms can contribute to the bigger assurance picture:

- *First line: management assurance from “front line” or business operational areas;*
- *Second line: oversight of management activity, including effective management information, separate from those responsible for delivery, but not independent of the organisation’s management chain; and*
- *Third line: independent and more objective assurance, including the role of Internal Audit and from external bodies (e.g. accreditation and Gateway reviews). Further detail of the role of Internal Audit is provided later in this chapter.*

4.5 An understanding of the three lines of assurance can help the Audit and Assurance Committee to play a key role in helping the Accountable Officer and Board establish an optimum mix of assurance. For example, management and oversight assurance activities can be harnessed to provide coverage of routine operations, with Internal Audit activity more effectively targeted at riskier or more complex areas. As well as strengthening assurance arrangements, this helps the Audit and Assurance Committee to demonstrate added value to the organisation. Advice on developing assurance frameworks is available in the Treasury Assurance Framework Guidance document.

4.6 The overall provision of assurances to the Accountable Officer and Board should be reviewed by the Audit and Assurance Committee, which should constructively challenge:

- *Whether the nature and scope of the assurance providers’ activity meets the Accountable Officer’s and Board’s assurance needs;*
- *The credibility and independence of each provider; and*
- *Where appropriate, the actual assurances to test that sufficient reliable evidence and that conclusions are reasonable in the context of the evidence.*

The committee should also be proactive in commissioning assurance work from appropriate sources if it identifies any significant risk, governance and control issues which are not being subjected to sufficient review, and in seeking assurance on weaknesses identified by reviews are actually remedied by management.

A “prompt” list of questions for Audit and Risk Assurance Committees to ask is provided at Annex F.

4.7 The overall committee view may draw attention to areas where:

- *Risk is being appropriately managed (no action needed);*
- *Risk is inadequately controlled (action needed to improve control);*
- *Risk is over controlled (resource being wasted which could be diverted to other use); and/or*
- *There is lack of evidence to support a conclusion. If this concerns areas material to the organisation’s operations more assurance work may be needed, subject to an assessment of costs and benefits.*

4.8 Assurance should be obtained on risks across the organisation. The governance structure of the departmental family/group will therefore need to ensure that there is effective communication on risks and control to ensure appropriate visibility of and timely action on such matters as well as to feed into the annual Governance Statement.

4.9 Similarly assurance on the risk and control environment should also encompass services outsourced to external providers, including shared service arrangements, so that all key elements of the organisation are considered as parts of the wider organisation and business function.

4.10 It is also good practice to have reasonable oversight of risks that cross organisational boundaries, for example, in major projects. This could include a Chairs of Audit and Assurance Committee Forum. Any such forum should focus on assurances on cross organisational governance, risk and control arrangements.”

Internal and External Audit

The 2018 handbook has added in a section under 4.13 under which states:

“In central government, the Auditor General is responsible for securing the external audit of most public sector bodies in Scotland and reporting on their financial health and performance. Audit work is carried out by Audit Scotland staff and appointed auditors including private firms. This includes the audits of financial statements as well as performance and Best Value audits. All external auditors appointed by the Auditor General are required to follow the Code of Audit Practice which outlines their responsibilities. Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement.”

There have been two extra bullet points added to the role of the audit committee in relation to advising the accounting officer and board in relation to Internal Audit. These are noted below:

- *The annual Internal Audit opinion and annual report; and*
- *The performance of Internal Audit, including conformance with the applicable standards, expected performance measures, and the results of both internal and external quality assessments.’*

Extra information: The 2018 Handbook has extended the internal and external audit section which provides details on the Code of Audit Practice and professional requirements. The extract is noted below:

4.15 Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK and Ireland) and professional requirements. These include:

- *Undertaking statutory duties, and complying with professional engagement and ethical standards*
- *Providing an opinion on audited bodies’ financial statements and, where appropriate, the regularity of transactions*
- *Reviewing and reporting on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports*
- *Notifying the Auditor General when circumstances indicate that a statutory report may be required.*

4.16 The Code of Audit Practice defines a wider scope for public audit that goes beyond the financial statements. This includes work that contributes to audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability. External auditors will report annually to those charged with governance on the results of their work covering both the financial statements and wider scope audit work. Audited annual financial statements including the independent auditors’ reports, and reports by the Auditor General are sent to Scottish ministers to be laid before the Scottish Parliament.

4.17 It is important that the Audit and Assurance Committee engages regularly with external audit. The committee should consider the results of external audit work and the proposed actions against audit recommendations. The committee should also consider planned external audit activity and enquire about the level of coordination and engagement between internal and external audit to ensure there is no unnecessary duplication of audit work.

Two sub-sections have been added to the External and Internal section for the 2018 Handbook and these have been copied below:

Governance

4.18 It is essential that the committee understands how governance arrangements support achievement of the organisation's strategies and objectives, especially:

- The organisation's vision and purpose;
- Mechanisms to ensure effective organisational accountability, performance and risk management;
- Role definitions, committee and other structures to support effective discharge of responsibilities, decision making and reporting;
- Promotion of appropriate ethics and values within the organisation;
- Communication of management information, including on risk and control among the board and to appropriate areas of the organisation; and
- Relations with ALBs including reporting functions to relevant AACs and Scottish Government.

Risk management and the control environment

4.19 It is also essential that the committee:

- Understands the organisation's business strategy, operating environment and the associated risks, taking into account all key elements of the organisation as parts of an "Extended Enterprise";
- Understands, where applicable, the role and activities of the Board (or equivalent senior governance/advisory body) in relation to managing risk;
- Discusses with the Board its policies, attitude to and appetite for risk to ensure these are appropriately defined and communicated so management operates within these parameters;
- Understands the framework for risk assessment, management and assurance and the assignment of responsibilities;
- Critically challenges and reviews the risk management and assurance framework, without second guessing management, to provide assurance that the arrangements are actively working in the organisations; and
- Critically challenges and reviews the adequacy and effectiveness of control processes in responding to risks within the organisation's governance, operations, compliance and information systems.

Financial Management and Reporting

This has been extended from the 2008 Handbook and now includes more detail in relation to the procedures which should be followed for financial reporting circumstances. The extra detail is noted below:

"4.20 The committee should consider significant accounting policies, any changes to them and any significant estimates and judgements, if possible before the start of the financial year. It should also review the clarity and completeness of disclosures in the year-end financial statements and consider whether the disclosures made are set properly in context.

Ideally, the committee should expect a comprehensive overview of the financial statements by the Finance Director, including comparisons with the prior year and current year budget, and an explanation for any issues arising."

The 2018 handbook has also added an extra bullet point which the committee should consider in reaching a view on the accounts this is noted below:

- *"Reports, advice and findings from external audit (especially the Audit Completion Report – ISA 260 Report)"*

Terms of Reference

As the Audit Committee section has been removed from the 2018 Handbook, the terms of reference are brought in under external and internal audit instead. The terms of reference held under the 2018 handbook provide more detail than the 2008 handbook. The new extracts are added below:

“It is important that a balance is struck during meetings between corporate governance, risk management, control and financial reporting items. The terms of reference should be reviewed annually alongside the performance of the committee.

The responsibilities assigned to the committee should not provide any conflict with the guidance in this handbook, in particular by compromising independence. The committee should not have any executive responsibilities or be charged with making or endorsing any decisions, although it may draw attention to strengths and weaknesses in control and make suggestions for how such weaknesses might be dealt with. The overarching purpose of the committee is to advise the Accountable Officer and Board; it is then the Accountable Officer and Board that make the relevant decisions.’

The Accountable Officer and Board need adequate and timely feedback on the work of the committee in order to consider its contributions formally. A schedule of the committee’s agreed delegations from the Board, and the mechanisms for feedback and assurance, should be formally documented.

To fulfil their role, most committees will need to meet at least four times a year. A model “core programme” of work for a Committee meeting four times a year is provided at Annex E”

Chapter 5: Communication and Reporting

A section has been added to the 2018 handbook under communication and reporting titled ‘improving relationships’. The new material is noted below:

“It is important for the committee to have good relationships and communication with those it seeks briefings from, and those it provides assurance to. This ensures that it is effectively engaged with the organisation and able to fulfil its function. This should include where risks cross organisational boundaries, for example, in major projects.”

Annual Report

Both the 2008 and 2018 handbook state ‘The Annual Report should summarise the Audit Committee’s work for the year past, and present the Audit Committee’s opinion. The 2018 handbook has added an extra bullet point to this list which is detailed below:

- *“The effectiveness of governance, risk management and control”*

Bilateral communications

The 2008 handbook stated that *“there should be an annual bilateral meeting between the Chair of the Audit Committee and each of these parties¹ to ensure that there is clear understanding of expectations and mutual understanding of current issues”*.

¹ *the Accountable Officer, Head of Internal Audit and the External Auditor.*

The 2018 handbook states that “*periodic discussions outside the formal meeting help to ensure that expectations are managed and that there is a mutual understanding of current risks and issues*”.

Changes to annexes

Annex A: The role of the chair: good practice

Extensions to role of the chair from 2008 handbook:

- *“Meeting time should be optimised by making sure that all agenda papers are issued in good time and then having each paper summarised outlining the key points, cross referred to the organisational business and risk agenda and stating what action the committee is required to take.*
- *The Chair of the Audit and Assurance Committee should establish a mechanism enabling key stakeholders to consider the overall risk and assurance needs (see 5.3).*
- *Encouraging good, open relationships between the committee, Accountable Officer, Finance Director and Internal and External Auditors. There are a number of ways that a Chair can encourage this.”*

A section is added to the 2018 Handbook which outlines how the profile of the committee can be raised by actions of the chair. The extract is noted below

“The profile of the committee can be raised to support and add weight to audit work by:

- *promoting audit issues internally with relevant Board members and other directors to make sure they appreciate the value of audit;*
- *holding managers within the organisation to account for the implementation of audit recommendations;*
- *calling appropriate business heads to meetings, for example, to explain how they are delivering their agreed actions on risks for which they are responsible;*
- *Arranging separate meetings for the Chair, Non-Executives and independent members and Internal and External Auditors to help establish open working relationships;*
- *Arranging meetings with the Chair, Internal Auditors and the Finance Director etc in the weeks leading up to the committee meeting to discuss areas for the agenda and papers that should be provided;*
- *Arranging meetings with the Internal Auditors (and possibly External Audit) immediately before the committee meeting to help give focus to discussions; and*
- *The Chair should ensure that there is an appropriate process between meetings for action points arising from committee business to be appropriately pursued. The Chair should also ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence. Chairs may choose to rely on the Secretariat to take these actions.”*

Appointments

The appointments section of the 2018 handbook is increased to include the following;

‘The Chair should also be actively involved in the appointment of the Head of Internal Audit’.

Annex B: Committee support: good practice

An extra responsibility is added to the Audit Committee Secretariat in the 2018 Handbook. This is noted below;

- *Arranging the Chair’s bilateral meetings with the Accountable Officer, the Head of Internal Audit, the External Auditor, and, in ALBs, with the Chair of the Board etc;*

The following paragraph has been removed from the 2018 handbook which was included within the 2008 Handbook:

“Careful consideration should be given to ensuring that the secretariat function is able to demonstrate independence from operational and management issues. If the function is provided by Internal Audit or Finance there may be a risk of bias towards their interests.”

Annex C: Model letter of appointment

Appointment and purpose

The appointment and purpose paragraph has been extended and now contains four bullet points which outline the purpose of the committee. These are noted below:

“The committee is a committee of the Board of (organisation) and its purpose is to:

- *Review the comprehensiveness of assurances in meeting the assurance needs of the Board and Accountable Officer;*
- *Review the reliability and integrity of these assurances;*
- *Review the integrity of the financial statements; and*
- *Advise the Board and Accountable Officer about how well assurances consequently support them in decision taking and in discharging their accountability obligations”*

Annex D: Model Terms of Reference

Information Requirements

The list detailing the information that will be produced as and when appropriate has been extended for the 2018 and has 4 new items which are noted below:

- *A report on the Counter Fraud and Bribery arrangements and performance;*
- *The annual Internal Audit Plan*
- *Business update reports from the Accountable Officer;*
- *Reports from other sources within the “three lines of assurance” integrated assurance framework (eg Best Value self-assessment Reviews, Gateway Reviews, Health Check Reviews, ICT Assurance Reviews, Digital 1st Service Standard Reviews, Procurement Capability Reviews, Procurement Key Stage Reviews).*

Annex E: Example of annual core work

For all of the four meetings across the year (Spring, Summer, Autumn and Winter) one extra aspect has been added to all of the agendas which is noted below:

“New issue to be added to the agenda;

- *Consider any reports from other sources within the “three lines of assurance” integrated assurance framework”*

Annex F: Key Lines of enquiry

Risk Management

Within the key lines of enquiry section the section on risk management processes has been supplemented. The extension has been noted below:

“On risk management processes, how do we know:

If risks are handled well:

- *Key strategic risks can change very quickly?*
- *Scenario planning and stress testing?*
- *‘Bubbling under’ risks?*

Risk focus is wide enough:

- *External and emerging risks are considered?*
- *‘Financial’ risks and ‘non-financial’ risks are reviewed?*

That management are regularly reviewing top risks?”

Results of both internal and external audit

Key lines of enquiry has also been extended in relation to assurance of internal and external audit activity. The supplementary sections are noted below:

“On the planned activity and results of both internal and external audit, how do we know:

- *That Internal Audit takes appropriate account of other assurance activity, especially in the first and second line (and that this assurance is understood and owned by management)? that Internal Audit recommendations that have been agreed by management are timeously implemented?*
- *That the quality of Internal Audit work is adequate? What does application of the Internal Audit Quality Assessment process tell us about the quality of the Internal Audit service?*
- *The Accountable Officer and Board have taken all necessary steps to make themselves aware of any relevant information and that auditors are aware of that information?*

A more detailed tool for evaluation of the quality of the Internal Audit service is the “Internal Audit Quality Assessment Framework” produced by HM Treasury.”

Accounting Policies

The key lines of enquiry surrounding the accounting policies and annual report has also been extended, extract of supplementary aspects copied below:

“On the accounting policies, the accounts, and the annual report of the organisation, how do we know:

- *How effective and accurate budgeting and in-year forecasting is?*
- *If the finance function is fit for purpose?*
- *What the “hidden” financial risks are, relating to (inter alia):*

- HR?
- VAT?
- Overruns?
- Sudden loss of funding/revenue?"

Corporate Governance

The assurances in relation to corporate governance have been changed significantly in the 2018 Handbook in comparison to the 2008 handbook. Three prompts have been removed and replaced with the new requirements noted below;

"On assurances relating to the corporate governance requirements for the organisation, how do we know:

- *Corporate governance arrangements operate effectively and are clear to the whole organisation?*
- *The Accountable Officer's Governance Statement is meaningful, and that robust evidence underpins it?*
- *The Governance Statement appropriately discloses action to deal with material problems?*
- *The Board/Executive is appropriately considering the results of the effectiveness review underpinning the annual Governance Statement?*
- *The range of assurances available is sufficient to facilitate the drafting of a meaningful annual Governance Statement?*
- *Those producing the assurances understand fully the scope of the assurance they are being asked to provide, and the purpose to which it will be put?*
- *Effective mechanisms are in place to ensure that assurances are reliable and adequately evidenced?"*

Annex G: Competency Framework

Competency framework for committee members has been extended to include the following;

"All members of the committee should have, or acquire as soon as possible after appointment:

- *Understanding of the organisation's three lines of assurance and sources of assurance"*

