

AUDIT & RISK COMMITTEE TERMS OF REFERENCE

1. Constitution

- 1.1 The constitution and role of the Audit and Risk Committee (ARC) has developed significantly in recent years. There has been an ongoing initiative to embed effective risk management at all levels of the management of government organisations which increases the need for explicit assurance about risk, control and governance in the organisation. As a result, the responsibility of the Committee has increased significantly.
- 1.2 This edition of the ARC Terms of Reference (ToR) provides good practice guidance which;
- o Supports the Committee in meeting good practice principles;
 - o Reflects the increasing availability of good practice experience for the Committee; and
 - o Reflects the increased significance of risk management and associated assurance needs.
- 1.3 The guidance in these ToR sets out five fundamental principles with explanatory practice notes which should help with the review of the appropriateness, fitness for purpose and activity of the Committee.

2. Introduction

- 2.1 The Committee must publicly report annually on its work and how it has discharged its responsibilities. The report should explain any non-compliance with the five principles of Committees, taking account of the supporting good practice guidance.

3. Good Practice Principles for Audit Committees

3.1 Principle 1: The Role of the Audit Committee

The Committee should support the Accounting Officer (The Commissioner) by reviewing the comprehensiveness of assurances in meeting the Accounting Officer's assurance needs, and reviewing the reliability and integrity of these assurances.

3.2 Principle 2: Membership, Independence, Objectivity and Understanding

The Committee should be independent and objective; in addition each member should have a good understanding of the objectives and priorities of the organisation and of their role as a Committee member.

3.3 Principle 3: Skills

The Committee should corporately own an appropriate skills mix to allow it to carry out its overall function.



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3.4 Principle 4: Scope of Work

The scope of the Committee's work should be defined in its ToR, and encompass all the assurance needs of the Accounting Officer. Within this, the Committee should have particular engagement with the work of Internal Audit, the work of the External Auditor, and Financial Reporting issues.

3.5 Principle 5: Communication

The Committee should ensure it has effective communication with the Accounting Officer, the Head of Internal Audit, the External Auditor, and other stakeholders.

- 3.6 The Accounting Officer should ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control. In this respect, the Accounting Officer should be independently advised by:
- an audit Committee chaired by an independent non-executive member;
 - an internal audit service operating in accordance with Government Internal Audit Standards.

4. Membership

- 4.1 The Accounting Officer should establish an audit Committee, of at least three members. The chairman of the Committee should be an independent member with experience at board level and at least one of the Committee members should have recent and relevant financial experience.
- 4.2 The ToR of the Committee, including its role and the authority delegated to it by the Accounting Officer, should be made available publicly. The department should report annually on the work of the Committee in discharging those responsibilities."

5. The role of the Chair:

- 5.1 The Chair of the Committee has particular responsibility for ensuring that the work of the Committee is effective, that the Committee is appropriately resourced, and is maintaining effective communication with stakeholders; and
- 5.2 Committee support: the Committee should be provided with appropriate administrative support to enable it to be effective. This is more than a minute taking function - it involves providing pro-active support for the work of the Committee and helping its members to be effective in their role.

6. Attendance

- 6.1 The following shall normally attend meetings: the Chief Executive, the Finance Officer, a representative from the Internal Audit team, a representative of the External Auditors, and a representative from OFMDFM (NICCY's sponsoring



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department). However, at least once a year the Committee may wish to meet with the External and Internal Auditors without any officers present.

7. The role of the Committee:

- 7.1 The Accounting Officer has many issues competing for their attention. One of the challenges they and their members face is knowing whether they are giving their attention to the right issues. Assurance is key to addressing this.
- 7.2 Assurance draws attention to the aspects of risk management, governance and internal control that are functioning effectively and, just as importantly, the aspects which need to be given attention to improve them.
- 7.3 Assurance helps the Accounting Officer judge whether or not the agenda is focusing on the issues that are most significant in relation to achieving the organisation's objectives and whether best use is being made of resources. The Committee can help the Accounting Officer to formulate the assurance need, and then advise on how well assurance received actually meets the assurance need.
- 7.4 Formulation of the assurance need is key in determining the resources that are needed to be dedicated to delivery of assurance in the organisation. Key elements of the assurance need include:
 - o the extent to which the Accounting Officer wants to put in place periodic management assurance (e.g. stewardship reports to support year end accountability and reporting);
 - o the extent to which the Accounting Officer wants to put in place ongoing management assurance (e.g. inspection or compliance teams which provide ongoing review of specific and defined areas of control); and
 - o 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 Government Internal Audit Standards.
- 7.5 The exact role of the Committee will depend on the particular circumstances of the organisation. Examples of issues affecting the exact role of the Committee include the strategic risk management arrangements that the Accounting Officer has established and the whistle-blowing arrangements which have been put in place
- 7.6 A 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 weaknesses might be dealt with. The overarching purpose of the Committee is to advise the Accounting Officer; it is then the Accounting Officer that makes the relevant decisions.



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8. Frequency

8.1 To fulfil its role, the Committee will need to meet at least four times a year. A model "core programme" of work for an Committee meeting four times a year is provided below;

Spring Meeting

- *Comment on the accounts for the year just finished prior to their finalisation and submission for audit;*
- *advise on the content of the Statement on Internal Control for the year just finished, to be presented alongside the finalised accounts;*
- *review Internal Audit's finalised periodic work plan for the financial year just begun.*
- *agree the Committee's annual report to the Accounting Officer.*

Summer / Pre-Recess Meeting

- *Review and consider the accounts;*
- *consider (emerging) External Audit opinion for the financial year just finished and advise the Accounting Officer on signing the accounts and Statement on Internal Control (SIC);*
- *consider Internal Audit opinion for the financial year just finished;*
- *discuss the implications of the result of the Accounting Officer's review of effectiveness of the system of internal control in relation to the SIC;*
- *some Committee's choose to have an additional meeting timed to deal with no business other than the pre-recess finalisation of the accounts.*

Autumn Meeting

- *Consider mid year report on emerging findings from Internal Audit;*
- *consider the External Audit management letter for the previous year, any emerging findings from the current interim / in-year work of External Audit, and External Audit's approach to their work;*
- *consider the External Audit strategy proposed in respect of the current year's accounts;*
- *consider any residual actions arising from the previous year's work of both internal and external audit.*

Winter Meeting

- *Advise on the Internal Audit strategy and the periodic work plan for the beginning of the new financial year;*
- *consider areas in which the Committee will particularly promote cooperation between auditors and other review bodies in the coming year;*
- *re-visit emerging findings from auditors and review actions in response to the External Audit management letter;*
- *consider the Committee's own effectiveness in its work.*



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9. Membership, Independence, Objectivity and Understanding

- 9.1 The Committee should be independent and objective; in addition each member should have a good understanding of the objectives and priorities of the organisation and of their role as a Committee member.
- 9.2 An effective Committee must have members who are both independent and objective. It is good practice, as far as possible, for Committee members to be independent non-executive members of a board. However, many organisations will not have sufficient independent nonexecutive Board members who are also willing to serve as Committee members to provide sufficient numbers or skills for the Committee.
- 9.3 When there are insufficient non-executive Board members to form the Committee, independent external members will need to be appointed. They will often be chosen because of particular skills or experience that they hold which will be beneficial to the Committee. They may be remunerated at appropriate rate for the time and effort they are expected to contribute. As Committee membership will be the only contact they have with the organisation, such members will have to make particular efforts to obtain and maintain appropriate understanding of the organisation, which is vital if they are to make a meaningful contribution to the Committee's considerations. In this respect, appropriate induction training is critical, as is an ongoing programme of activity to ensure the member maintains sufficient appropriate contact with the organisation.

10. Relationship with The Executive

- 10.1 Executive members of NICCY should not be appointed to the Committee. The role of the Executive is to attend, to provide information, and to participate in discussions, either for the whole duration of a meeting or for particular agenda items.
- 10.2 The Accounting Officer and the Chief Executive should routinely attend the Committee. It is also normal for the Head of Internal Audit and a representative of the External Auditor to attend. However, the ToR should also provide for the Committee to sit privately without any non-members present for all or part of a meeting if they so decide.
- 10.3 It is also common for representatives of sponsoring or sponsored bodies to attend Committee meetings (for example, a member of a department may attend the Committee of one of its Executive Agencies). However, such representatives should not be appointed as members of the Committee.



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11. Conflicts of Interest

- 11.1 Normally the process for recording declarations of conflicts of interests in the Committee should mirror the processes used at Board level. Each member of the Committee should take personal responsibility to pro-actively declare any potential conflict of interest arising out of business arising on the Committee's agenda or from changes in the member's personal circumstances.
- 11.2 The Chair of the Committee should then determine an appropriate course of action with the member. For example, the member might simply be asked to leave while a particular item of business is taken; or in more extreme cases the member could be asked to leave the Committee. If it is the Chair who has a conflict of interest, the Accounting Officer should ask another member of the Committee to lead in determining the appropriate course of action. A key factor in determining the course of action will be the likely duration of the conflict of interest: a conflict likely to endure for a long time is more likely to suggest that the member should leave.

12. Terms of Appointment

- 12.1 All members of Audit Committees should have a clear understanding of:
- o what is expected of them in their role, including time commitments;
 - o how their individual performance will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance and the criteria which would indicate the termination of Committee membership should be considered; and
 - o the duration of their appointment and how often it may be renewed.
- 12.2 The terms of appointment of a Committee member should be clearly set out at the time of appointment.
- 12.3 The offer letter should also specify what other activities the individual may or may not undertake in relation to the organisation. The impact on independence of further remuneration from other activities should be given careful consideration. More detailed guidance on the making of appointments can be found in "Making and Managing Public Appointments", published by the Public Appointments Unit.

13. Range Of Skills

- 13.1 The Committee is charged with ensuring that the Accounting Officer gains the assurance they need on risk management, governance and internal control. So, it needs a range of skills and experience relevant to various aspects of risk, governance and control.



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- 13.2 Because of the importance of financial management and financial reporting to every organisation, at least one member of the Committee should have recent and relevant financial experience. This experience should be sufficient to allow them to competently engage with financial management and reporting in the organisation, and associated assurances.
- 13.3 The Committee should identify, and agree with the Accounting Officer, any additional skills required for Committee effectiveness. These identified skills should then be sourced from an appropriate training authority. The required skills set should be periodically reviewed.

14. Training and Development

- 14.1 All Committee members, whatever their status or background, will have training and development needs. Those who have recently joined the Committee will need induction training, either to help them understand their role; or if they have audit Committee experience elsewhere, to help them understand the organisation.
- 14.2 In particular those joining a public sector Committee for the first time with no experience of government will need training to help them understand public sector standards, especially those relating to governance and accountability.

15. Scope of Work

15.1 Overall Assurance

Overall assurance of this kind is unlikely to be capable of expression in a single phrase, sentence or indicator because it is highly unlikely that all risk will be equally managed. Rather, the overall 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);
- there is lack of evidence to support a conclusion - and if this concerns areas material to the operations of the organisation more audit and/or assurance work will need to be done.

16. Internal and External Audit

- 16.1 In any organisation there will be two significant sources of assurance that the Committee can be certain will be present: Internal Audit and External Audit. In central government, the National Audit Office under the Comptroller and Auditor General is responsible for external audit. The work of Internal Audit is carried out primarily for the benefit of the Accounting Officer, although the



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work of External Audit is normally primarily conducted for the benefit of Parliament, it is still of significant benefit to the organisation as well.

- 16.2 The work of Internal Audit is likely to be the single most significant resource used by the Committee in discharging its responsibilities. This is because the Head of Internal Audit, in accordance with the Government Internal Audit Standards, has a responsibility to offer an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes (see Government Internal Audit Standards, Standard 9, Reporting). There is consequently a major synergy between the purpose of the Head of Internal Audit and the role of the Committee.
- 16.3 The role of the Audit Committee in relation to Internal Audit should include advising Accounting Officer on:
- the Audit Strategy and periodic Audit Plans, forming a view on how well they support the Head of Internal Audit's responsibility to provide an annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes.
 - the results of Internal Audit work, and management response to issues raised by that work.
 - the resourcing of Internal Audit.
 - the ToR (or equivalent) for Internal Audit.
- 16.4 Whilst the work of the External Auditor is not primarily conducted for the benefit of the organisation or its Committee, the Committee should nevertheless engage with the activity of the external auditor. As well as considering the results of external audit work, they should enquire about and consider the external auditor's planned approach and the way in which the external auditor is co-operating with Internal Audit to maximise overall audit efficiency, capture opportunities to derive a greater level of assurance and minimise unnecessary duplication of work.

17. Financial Reporting

- 17.1 The Committee will not itself be able to review the accounts in detail in order to advise the Accounting Officer whether they are true and fair. In reaching a view on the accounts, the Committee should consider:
- key accounting policies and disclosures;
 - assurances about the financial systems which provide the figures for the accounts;
 - the quality of the control arrangements over the preparation of the accounts by the Finance Officer ;
 - key judgements made in preparing the accounts;
 - any disputes arising between those responsible for preparing the accounts and the auditors.



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18. Communication

- 18.1 The work of the Committee needs to be effectively communicated if it is to be effective. After each meeting of the Committee a report should be prepared for the Accounting Officer to:
- summarise the business taken by the Committee, explaining if necessary why that business was regarded as important; and
 - offer the views of, and advice from, the Committee on issues which they consider the Accounting Officer should be taking action.
- 18.2 If the minutes of the Committee meeting are used as the report, care should be taken in their presentation to highlight the advice being provided. These reports should normally be copied to the Head of Internal Audit and the External Auditor (especially if the report contains advice about or to the auditors).

19. Annual Reports

- 19.1 The Committee should also provide an Annual Report, timed to support preparation of the Statement on Internal Control. This internal report needs to be open and honest in presenting the Committee's views if it is to be of real benefit to the Accounting Officer. This report is likely to also offer the basis for preparing a further report suitable for publication in fulfilment of the reporting requirements of the Code.
- 19.2 The Annual Report should summarise the Committee's work for the year past, and present the Committee's opinion about:
- the comprehensiveness of assurances in meeting the Accounting Officer's needs;
 - the reliability and integrity of these assurances;
 - whether the assurance available is sufficient to support the Accounting Officer in their decision taking and their accountability obligations;
 - the implication of these assurances for the overall management of risk;
 - any issues the Committee considers pertinent to the Statement on Internal Control and any long term issues the Committee thinks the Accounting Officer should give attention to;
 - financial reporting for the year;
 - the quality of both Internal and External Audit and their approach to their responsibilities; and
 - the Committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.

