

AUDIT AND RISK COMMITTEE

TERMS OF REFERENCE

1. OBJECTIVES

- 1.1. As a Committee of the Management Board (“the Board”), the Audit and Risk Committee’s (“the Committee”) overall objective is to support the Board and Permanent Secretary as Accounting Officer by providing appropriate advice **to give assurance to the Board and the Accounting Officer that** :
- a) **High quality risk assessment and mitigation is embedded** into financial and non-financial management processes;
 - b) **Overall Governance arrangements are appropriate and operating effectively;**
 - c) **The financial control framework is effective** and supported by an appropriate compliance culture;
 - d) **External financial reporting** is prudent, accurate, appropriate and consistent with Financial Reporting Manual (FRM) accounting policies;
 - e) **Internal financial and management reporting** is timely, prudent, appropriate and consistent with external financial reports;
 - f) **Internal Audit assurance** provides an appropriate level of comfort to the Accounting Officer; and
 - g) **Relationships with the National Audit Office are effective**

The scope of these objectives covers all BERR’s activities including those of its Executive Agencies and Non Departmental Public Bodies.

2. SPECIFIC RESPONSIBILITIES

- 2.1. This section highlights the most significant responsibilities of the Committee. This is not an exhaustive list and can be amended at the Committee’s discretion, subject to agreement of the Accounting Officer, to ensure the objectives are met.
- 2.2. **High quality risk assessment and mitigation**
- 2.2.1. To independently monitor and assess the effectiveness of systems established by management to identify, assess and manage risk. Particular focus is given to assessing:
- The risk management strategy adopted for the management of the Department’s key risks and processes. This should encompass all kinds of risks (e.g. strategic, operational, financial, reputational, compliance-related).

- Management's ownership and accountability in relation to these risks;
- The level of assurance provided relating to the management of the key risks including those identified by the Board or in Groups in their business plans and risk registers;
- The scope and effectiveness of systems established by management to identify, assess, manage and monitor non-financial risks (including re staff quality, turnover and outsourcing);
- Whether Board sub committees have appropriate processes in place to ensure that risks within the remit of those committees are managed effectively;
- The annual and medium term work plans of Internal Audit, ensuring that these address the key risks and link appropriately; and
- The Department's activities to improve the effectiveness of the way key risks are managed.

2.3. Overall Governance arrangements are appropriate and operating effectively

- 2.3.1. To advise the Accounting Officer annually on whether he/she should sign the draft Statement on Internal Control to be published within the Department's Annual Report and Accounts. This should follow participation by the Committee's Chairman in annual meetings with Directors General following their completed review of internal controls operating within their Groups each financial year.
- 2.3.2. To review and advise on the adequacy of the Department's anti-fraud policies and whistle-blowing processes. This should include ensuring that appropriate arrangements are in place for staff, in confidence, to raise concerns about possible improprieties (e.g. in financial reporting or re possible fraud), and ensuring that adequate arrangements are in place for proportionate and independent investigation of such matters and for appropriate follow-up action.

2.4. The financial control framework and compliance culture

- 2.4.1. To consider the Department's financial control framework, including financial authorities, management accountabilities and the main financial controls relating to the key financial and operational processes within the Department.
- 2.4.2. To consider, in the absence of management where necessary, sensitive audit findings and any matters which the internal and external auditors may wish to raise, and any other matters of major importance, and to report if appropriate to the Accounting Officer and Board thereon together with any recommendations for improvements.
- 2.4.3. To consider the adequacy of management responses to any major Internal Audit or external audit recommendations.
- 2.4.4. To review compliance with regulatory requirements, including:
- Data Protection Act;
 - Freedom of Information Act;
 - Health and Safety at Work statutes; and
 - Others as appropriate.

2.5. External financial reporting

- 2.5.1. To review, challenging where necessary, the actions and judgements of management relating to the annual financial statements, before their submission to the Accounting

Officer and the Board, ensuring that they are prudent, accurate, appropriate and consistent with Government Accounting policies.

2.5.2. In doing this the Committee will pay particular attention to:

- Critical accounting polices and practices, including any proposed changes to these or any deviations from the Financial Reporting Manual (FReM);
- Decisions involving a major element of judgement;
- Accounting treatment and disclosure of any unusual transactions in the year;
- The clarity of disclosures in the accounts;
- Assurances about the financial systems which provide the figures for the accounts
- Significant adjustments resulting from the NAO audit; and
- Approving written representations explaining any reasons for any non compliance with FReM or for not adjusting misstatements to the accounts brought to their attention by the NAO.

The Committee will provide the Accounting Officer with an independent assessment of the integrity of the financial statements, any reports and associated matters relating to the Department's financial accounts.

2.6. Internal financial and management reporting

2.6.1. To consider the Department's internal and financial management reporting, and assess the extent to which it is timely, prudent, appropriate and consistent with external financial reports.

2.7. Internal Audit assurance provides appropriate comfort

2.7.1. To consider and advise the Board and Accounting Officer annually on the adequacy of the annual and medium term work plans of Internal Audit and ensure it links appropriately to that of the NAO and other assurance providers.

2.7.2. For each meeting the Committee will be provided with a report from the Director of Internal Audit noting:

- any significant changes (since the last meeting, or proposed) to the annual audit plan;
- progress made on delivery of the audit plan;
- key findings arising from Internal Audit and, where appropriate, compliance work;
- the timeliness and suitability of management responses to audit recommendations;
- progress made in implementing Internal Audit recommendations and any other recommendations arising from the risk management procedures; and
- any significant resourcing issues affecting the delivery of Internal Audit objectives.

2.7.3. To discuss with the Director of Internal Audit as appropriate any issue relating to his report, in the absence of management where necessary. They may also direct Internal Audit to carry out work in any area where they believe further/additional assurance is required.

2.7.4. To ensure the Internal Audit function is adequately resourced, including staff numbers, experience, skills, independence and appropriate standing within the Department. This should include consideration of the effectiveness of any support provided to Internal Audit by third parties [currently PricewaterhouseCoopers]

2.7.5. The Committee may invite to meetings those Directors responsible for the implementation of Internal Audit recommendations, to explain the causes of delay

where agreed timescales are not met or where Internal Audit are not satisfied that action taken has addressed the risk appropriately.

2.8. Relationships with the National Audit Office are effective

- 2.8.1. To review progress reports to be provided at each meeting from the External Audit representative on work that they are performing within the Department including both interim and annual accounts audits, value for money studies and other reviews.
- 2.8.2. To discuss with External Audit representatives as appropriate any issue relating to their reports and seek to ensure that their relationship with both Finance and Strategy (F&S) and Internal Audit is effective.
- 2.8.3. Although the work of the NAO is primarily conducted for Parliament's benefit, it should still be of significant benefit to the Department. A strong relationship with the NAO will result in clear understanding of financial reporting obligations, complementary internal/external audit work programmes and knowledge sharing where possible/appropriate.

3. AUTHORITY

- 3.1. The Accounting Officer and Board authorise the Committee or Internal Audit to investigate any activity within its Terms of Reference and to access any records, staff and physical properties deemed necessary to assist the Committee in meeting its objectives.
- 3.2. The Committee can decide to obtain, in agreement with the Accounting Officer, external professional advice on any particular issue.
- 3.3. The Chair of the Committee will have free and confidential access to the Accounting Officer, Finance Director, Director of Internal Audit and to the National Audit Office, but will keep the Accounting Officer informed of his discussions as appropriate.

4. MEMBERSHIP, INDEPENDENCE, OBJECTIVITY AND UNDERSTANDING

- 4.1. Members of the Committee will act with independence and objectivity in the conduct of their responsibilities. In addition, each member should have a sound understanding of the objectives and priorities of the Department and of their role as a Committee member.
- 4.2. The Committee Chair will be a non-executive member of the Board and will be appointed for a period of up to three years, extendable by no more than one additional three-year period, by the Permanent Secretary, to whom the Chair reports.
- 4.3. Other Committee members will be non-executive although not necessarily members of the Board. They too will be appointed for periods of up to three years extendable by no more than one additional three-year period subject to approval by Accounting Officer in conjunction with the Chair. In selecting Committee members, the Department will take due account of the need to ensure that the Committee has the range of skills needed to carry out its function. In all cases Cabinet Office guidance on the recruitment, appointment and development of non-executive members of Civil Service Boards will apply.
- 4.4. The Committee shall have at least three members. At least two members of the Committee shall have significant, recent and relevant financial experience. Current members of the Committee are:

Position	Name	Appointment date	Appointment expiry date
Chair Non-Executive Board Member	Dr Brian Woods-Scawen	30 March 2005	31 March 2010
Member Non-Executive Board Member	Barry Rourke	30 March 2005	31 March 2009
Member Non-Executive Board Member	Bryan Jackson	19 September 2007	18 September 2009
Member Non-Executive Board Member	Darrel Sheinman	19 November 2007	18 November 2009
Member Non-Executive Board Member	Hunada Noss	19 November 2007	18 November 2009

5. OTHER ATTENDEES

- 5.1. No one other than Committee members shall be entitled to attend Committee meetings. However, Committee meetings will normally be attended by the Accounting Officer and the Director General Finance and Strategy. Others such as Directors General, the Director of Internal Audit, the representative of the NAO or Heads of Management Units will be invited to attend all or part of any meeting as appropriate.
- 5.2. The Committee may request the attendance of other departmental officials as necessary.

6. CONFLICTS OF INTEREST

- 6.1. A Committee member or attendee who becomes aware of a potential conflict of interest relating to matters being discussed by the Committee should give prior notification to the Chair or, if this is not possible, declare this at the meeting and, where necessary, withdraw during discussion of the relevant agenda item.

7. ACCESS TO THE AUDIT COMMITTEE

- 7.1. The Director of Internal Audit for the Department and the representative of the National Audit Office will have free and confidential access to the Chair of the Audit Committee.

8. SUPPORT AND MEETINGS

- 8.1. Support for the Committee will be provided by the BERR Secretariat who will make arrangements for the organisation and recording of Committee meetings, coordination and distribution of papers.
- 8.2. Meetings shall be held not less than four times a year and where possible should coincide with key dates in the Department's financial reporting calendar. (See Annex A for schedule).
- 8.3. At least once a year the Committee should meet the internal and external auditors without executive Board members present.
- 8.4. The Chair of the Committee or the Accounting Officer may convene additional meetings as deemed necessary.
- 8.5. The representative of the NAO or the Director of Internal Audit may request a meeting if they consider one is necessary

- 8.6. A minimum of two members of the Committee, at least one of whom should be a non executive, must be present for the meeting to be declared quorate. In the absence of the Chair the meeting may be chaired by another member.
- 8.7. The Chair may ask any or all of those who normally attend, but who are not members of the Committee, to withdraw should this be deemed appropriate.
- 8.8. Written agendas and supporting papers will, wherever possible, be produced and distributed to members and attendees at least one week (5 working days) before meetings.
- 8.9. Minutes will be circulated at least to Committee members and all attendees.

9. RESPONSIBILITIES RELATING TO INTERNAL AND EXTERNAL AUDIT

- 9.1. Apart from agreeing and reviewing the planned activity and results of both internal and external audit, the Committee will advise the Accounting Officer on the:
 - Effectiveness of both internal and external audit;
 - Independence and quality assurance processes of internal and external audit; and
 - Any proposed restructuring of the Internal Audit service, including the purchase of audit services from external sources.
- 9.2. The Committee will be consulted in the appointment or dismissal of the Head of Internal Audit.

10. INFORMATION REQUIREMENTS

- 10.1. At each meeting the Committee will be provided with:
 - A report showing the Department's key risks and any significant changes to the Department's risk registers;
 - A progress report from the Head of Internal Audit
 - A progress report from the representative of the NAO.
- 10.2. In addition to information cited elsewhere in these Terms of Reference, as appropriate the Committee will also be provided with:
 - proposals for any changes to the Terms of Reference of Internal Audit;
 - the Internal Audit strategy and proposed annual programme of Internal Audit work;
 - details of resourcing or other issues affecting the delivery of Internal Audit objectives
 - the annual opinion and report of the Head of Internal Audit;
 - the draft Annual Report and Accounts produced by BERR;
 - the draft Statement on Internal Control;
 - proposals for changes to accounting policies;
 - external audit strategy memoranda;
 - external audit management letters;
 - a report on any proposals to tender for Internal Audit functions;
 - status reports for mission-critical projects; and
 - quality assurance reports on the Internal Audit function.

11. RELATIONSHIP WITH AUDIT COMMITTEES OF DELIVERY PARTNERS

11.1. The Committee shall:

- Overall, establish appropriate and effective relationships with delivery partner audit committees
- Advise delivery partner audit committees of its Terms of Reference, and any subsequent changes, for information
- Periodically review the Terms of Reference of delivery partner audit committees
- Receive and review reports on any matters the chairmen of delivery partner audit committees wish to bring to the attention of the Committee;
- Periodically engage with the chairmen of delivery partner audit committees to discuss matters of topical or mutual interest.

12. REPORTING TO THE BOARD

12.1. The minutes of each Committee meeting will be circulated to all members of the Board and the Chair will produce and present to the Board an annual report summarising the activities of the Committee and the outcomes of its work.

13. ANNUAL REVIEW OF REMIT AND PERFORMANCE

13.1. The Committee will assess its effectiveness, and will also review these Terms of Reference, annually. It will submit recommendations for any proposed changes to the Board for approval.

13.2. The Committee's duties and activities shall be disclosed in the Department's Annual Report and Accounts

AUDIT & RISK COMMITTEE ANNUAL CYCLE OF AGENDA ITEMS

	Feb	May	July	Sept	Dec
Minutes of previous meeting					
Approval and matters arising	*	*	*	*	*
High quality risk assessment and mitigation					
Updates re: key risks	*	*		*	*
Review risk management strategy and processes	*				
Overall governance arrangements					
Report on outcome of reviews of internal controls in Groups	*	*		*	*
Review Statement on Internal Control		*	*		
Review anti-fraud policy and fraud risks	*				
Review whistleblowing processes	*				
Financial control framework					
Review financial control framework					*
Review regulatory compliance					*
External financial reporting					
Consider accounting issues and policy papers	*	*		*	*
Review reporting timetable/process				*	
Review draft Annual Report & Accounts		*	*		
Consider NAO progress and Management Letters				*	
Internal financial and management reporting					
Review internal reporting effectiveness		*			
Internal Audit assurance					
Review Internal Audit Plans (annual and medium term)		*			
Review Internal Audit expertise, effectiveness and resourcing		*			
Consider Internal Audit progress reports	*	*		*	*
HIA & Committee Members only discussion		*			
NAO relationships					
Review NAO progress reports	*	*	*		*
NAO & Committee Members only discussion			*		
Others					
Matters arising re: Delivery Partner Audit Committees	*	*		*	*
Review delivery partner Audit Committee terms of reference					*
A&RC review own performance and terms of reference				*	
Date of next meeting	*	*	*	*	*
Any other business	*	*	*	*	*