



Her Majesty's Treasury Group Resource Audit Committee

Draft Terms of Reference

HER MAJESTY'S TREASURY GROUP RESOURCE AUDIT COMMITTEE TERMS OF REFERENCE

1. Introduction

1.1 The Permanent Secretary of HM Treasury (HMT) has established an Audit Committee to support him and the Debt Management Office (DMO) and Office of Government Commerce (OGC) Additional Accounting Officers (AAO) in their responsibilities for issues of risk, control and governance and associated assurance.

1.2 This document establishes the terms of reference for the HMT Group Resource Audit Committee (referred to below as 'the Committee'). It has been developed to:

- meet the needs of the Permanent Secretary and the DMO and OGC AAO's;
- comply with HMT's *Government Internal Audit Standards* and specifically the *Audit Committee Handbook* issued in October 2003; and
- meet best practice for Audit Committees.

2. Scope

2.1 The scope of the Committee is to consider and advise upon HMT Group's processes for risk, control and governance, related to the Group's Resource Account, which comprise the policies, procedures and operations in place to:

- Establish, and monitor the achievement of, HMT's objectives;
- Identify, assess and manage the risks to achieving HMT's objectives;
- Advise on, formulate, and evaluate policy, within the responsibilities of the Permanent Secretary and DMO and OGC AAO;
- Ensure the economical, effective and efficient use of resources;
- Ensure compliance with established policies (including behavioural and ethical expectations), procedures, laws and regulations;
- Safeguard HMT Group's assets from losses of all kinds, including those arising from fraud, irregularity or corruption; and
- Ensure the integrity and reliability of information, accounts and data, including internal and external reporting and accountability processes.

Responsibilities relating to management

2.2 The Committee will advise the Permanent Secretary (and DMO and OGC AAO as appropriate) on:

- the strategic processes for risk, control and governance and the Statement on Internal Control;

- resource accounts, paying particular attention to:
 - the process for review of the accounts prior to submission for audit;
 - critical accounting policies and practices, and any changes in them;
 - decisions requiring a major element of judgement;
 - management's letter of representation to the external auditors;
 - the extent to which the financial statements are affected by any unusual transactions in the year and how they are disclosed;
 - the clarity of disclosures;
 - levels of error identified and significant adjustments resulting from the audit;
 - compliance with accounting standards relevant to UK central government (e.g. the Government Financial Reporting Manual and Government Accounting); and
 - compliance with legal requirements;
- the adequacy of management response to issues identified by internal and external audit activity, including external audit's management letter;
- assurances relating to the corporate governance requirements of HMT Group;
- whistle-blowing arrangements by which HMT Group staff or external stakeholders may, in confidence, raise concerns about possible improprieties in HMT Group financial reporting or other matters and by which such matters are proportionately and independently investigated and followed up; and
- the design and implementation of HMT Group's policies on ethics and on conflicts of interest.

Responsibilities relating to audit

2.3 The Committee will advise the Permanent Secretary (and DMO and OGC AAO's as appropriate) on:

- the planned activity and results of both internal and external audit, related to the Group's Resource Accounts and associated systems;
- the effectiveness of both internal and external audit and performance against key performance indicators;
- the response to both internal and external audit recommendations with regard to implementation rates and reasonableness of reasons for non-implementation;
- the independence and quality control processes of internal and external audit; and
- any proposed restructuring of HMT Group's internal audit service, e.g. proposals for tendering for the service or for the purchase of audit services from contractors.

2.4 In addition the Committee will (a) approve the appointment or dismissal of the Head of Group Internal Audit, and (b) provide comment on the performance of the Head of Group Internal Audit.

3. Membership

3.1 Members are appointed by the Permanent Secretary in consultation with the Board for periods of up to three years, extendable by no more than two additional three-year periods. The Chair of the Committee reports directly to the Permanent Secretary.

3.2 There will be no fewer than two members of the Committee at any time. All members will be independent and at least one should have recent and relevant financial expertise.

3.3 The members of the Committee from 8 December 2006 are:

Chair: External member	William Sargent	Joint chief executive and co-founder of Framestore CFC	From December 2005 for a period ending 31 May 2008.
Non-executive Board member	Stella Manzie	Chief Executive, Coventry City Council a	Appointed 1 June 2005 for a period of three years
Non-Executive	Colin Thwaite	Non-executive Director, OGC.	Appointed 3 July 2006.

3.4 The Strategy, Change & Performance (SCP) team will provide administrative support to the Committee and will ensure that any information needs are met.

4. Other attendees

4.1 Committee meetings will normally be attended by the Permanent Secretary, the Finance Director, the Head of Group Finance, the Head of SCP, the Head of Group Internal Audit and a representative of External Audit. DMO and OGC AAO's will normally attend when matters relating to their accounts are discussed.

4.2 The Committee may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter.

5. Quorum

5.1 A minimum of two members of the Committee must be present for the meeting to be deemed quorate.

5.2 When the Chair is absent the Committee will be chaired by one of the other members.

6. Frequency of meetings

6.1 The Committee will meet four times a year. The Chair of the Committee may convene additional meetings, as deemed necessary.

6.2 The Permanent Secretary and DMO and OGC AAO's may ask the Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

7. Access to the Audit Committee

7.1 The Head of Group Internal Audit and the representative of external audit will have free and confidential access to the Chair of the Committee.

7.2 It is anticipated that the Head of Group Internal Audit and the representative of external audit will meet regularly with the Chair of the Committee throughout the year, to update on the status of their respective audits.

7.3 The Chair of the Committee and Head of Group Internal Audit should meet with Treasury Board, at least annually, to discuss the top-level risks to HMT Group, with a view to identifying areas where a review by internal audit can add value.

8. Access to records

8.1 The Committee may call for any documents or records to assist it with its discussions on any particular matter.

9. Conflicts of interest

9.1 Committee members and other attendees should declare any conflicts of interest relating to matters being discussed by the Committee and, where necessary, withdraw from relevant agenda items.

10. Information requirements

10.1 For each meeting, the Committee will be provided with:

- a report summarising any significant changes to the organisation's risk register;
- a progress report from the external audit representative; and
- a progress report from the Head of Group Internal Audit summarising:
 - work performed (and a comparison with work planned);
 - the results of assignments including key issues emerging from internal audit work;
 - a summary of management responses to audit recommendations;
 - changes to the periodic internal audit plan; and
 - any resourcing or other issues affecting the delivery of internal audit objectives.

10.2 As appropriate, the Committee will be provided with:

- proposals for the terms of reference of internal audit;
- the internal audit strategy and the proposed annual programme of internal audit work;
- the Head of Group Internal Audit's annual opinion and report (to include quality assurance reports and performance measures on the internal audit function);
- the draft accounts for the DMO and HMT resource accounts, including the draft Statements on Internal Control and management stewardship reports;
- a report on any changes to accounting policies;
- external audit's management letter;
- a report on cooperation between internal and external audit; and
- information and status reports for business critical projects in HMT Group.

10.3 An indicative schedule showing which key documents should be on the agenda at each regular Committee is attached at Annex A.

11. Resources

11.1 The Permanent Secretary should make sufficient funds available to the Committee to enable it to take independent legal, accounting or other advice when the Committee reasonably believes it necessary to do so.

12. Reporting and performance

12.1 A note of Committee activity will be provided to the members of the Treasury Board at each of their meetings.

12.2 The Committee will assess its effectiveness annually and make plans for improvement where appropriate.

12.3 The Committee will review annually its terms of reference and recommend any necessary changes to the Permanent Secretary

Annex A - Schedule of key documents on the agenda at Audit Committee meetings

Meeting date	Key documents for review in addition to standing agenda items
March	<ul style="list-style-type: none"> • Proposed internal audit programme of work for the financial year commencing 1 April • End of year progress report from internal audit • Internal Audit Reports Issued • First draft Statements on Internal Control – DMO and HM Treasury resource accounts • Risk management report
May	<ul style="list-style-type: none"> • Draft DMO and HMT resource accounts including Statements on Internal Control • Report on the External Audit of DMO and HM Treasury resource accounts • Draft Head of Group Internal Audit Annual Report to the Permanent Secretary (to include report on annual results against TIA performance indicators) • Internal Audit Reports Issued • Progress report from internal audit
September	<ul style="list-style-type: none"> • Internal Audit Reports Issued • Progress report from internal audit • NAO Management Letters DMO and HMT Resource Accounts
December	<ul style="list-style-type: none"> • External audit plan for audit of DMO and HM Treasury resource accounts • Progress report from internal audit • Internal Audit reports Issued • Proposed Internal Audit Strategy for the next financial year • Audit Committee terms of reference for review and update • Internal Audit terms of reference for review and update