

Audit & Governance Committee Paper

How this paper relates to our strategy	Setting standards <input type="checkbox"/>	Increasing and informing choice <input type="checkbox"/>	Demonstrating efficiency, economy and value <input checked="" type="checkbox"/>
Paper Title	Annual Review of AGC Activities and Effectiveness – action plan		
Agenda Item	11		
Paper Number	[AGC (10/12/2014) 440]		
Meeting Date	10 December 2014		
Author	Sam Hartley, Head of Governance and Licensing		
For information or decision?	Information		
Recommendation	Committee members are invited to note the action plan resulting out of the committee’s annual review of effectiveness in October 2014		
Resource Implications	Negligible		
Implementation	According to the action plan		
Communication	Results will be put direct to Authority, along with those for all committees		
Organisational Risk	Low		
Evaluation	This is part of a continuing review of effectiveness by AGC that culminates in this more formal annual report		
Annex	A: Action plan B: NAO checklist for Audit Committees – completed		

Introduction

1. The Committee conducted its annual review of effectiveness at its last meeting in October. The results of that discussion have been written into the NAO good practice self-assessment checklist, and is attached at Appendix B.

Action plan

2. There are actions arising out of the review of effectiveness, and these are captured within the document. For clarity (and for monitoring purposes) those actions are detailed in Appendix A, with owners and expected timescales.

Recommendations

3. The Committee is asked to note the completed checklist and appendix B, and the action plan at Appendix A, with progress against actions.

	Action	Expected benefit	Owner	Expected completion	Open/closed?
1	Keep with plan to hold four meetings per year, and re-visit proposal for three meetings per year in six months' time.	Consistency; evaluation; proportionality	Director of Finance & Resources	March 2015	Open
2	Ensure an action plan is kept in order to follow up on reviews of effectiveness.	Monitoring and improvement	Head of Governance & Licensing	December 2015	Closed
3	Ensure Accounting Officer attends June meeting of the committee every year, as a minimum.	Accountability; transparency	Chief Executive	June 2015	Open
4	Circulate committee minutes to all Authority members once signed off to ensure visibility of work carried out by committee.	Communication; shared learning; raising profile	Secretary to the Committee	From sign-off after December meeting	Open
5	Arrange for external members to attend Authority meeting as observers	Communication; learning; raised profile	Head of Governance & Licensing	March 2015	Open
6	Arrange for external members to observe an inspection	Communication; learning; raised profile	Head of Governance & Licensing	March 2015	Open
7	Arrange for members to have an annual appraisal with the Chair, adhering to the Authority member appraisal timescales	Learning & development	Chair of AGC	March 2015	Open
8	The committee must have time and space for discussions with Internal Audit only, which could be at the end of a meeting. It was noted that this was unlikely to be necessary, but would be built in to the consideration of agendas in future nevertheless.	Accountability; effectiveness; scrutiny	Secretary to the Committee	December 2015	Closed

9	Institute formal annual report to Authority board	Accountability; communication	Head of Governance & Licensing	March 2015	Open
10	Give thought to improving communication from external appeals committees to AGC/Authority board, while maintaining independence of those committees.	Scrutiny; assurance; communication	Head of Governance & Licensing	March 2015	Open

Appendix B: NAO's Audit Committee self-assessment checklist – completed

GOOD PRACTICE

The Audit Committee self-assessment checklist

2nd edition January 2012

Financial Management and Reporting

Our vision is to help the nation spend wisely.

We apply the unique perspective of public audit to help Parliament and government drive lasting improvement in public services.

The National Audit Office scrutinises public spending for Parliament and is independent of government. The Comptroller and Auditor General (C&AG), Amyas Morse, is an Officer of the House of Commons and leads the NAO, which employs some 860 staff. The C&AG certifies the accounts of all government departments and many other public sector bodies. He has statutory authority to examine and report to Parliament on whether departments and the bodies they fund have used their resources efficiently, effectively, and with economy. Our studies evaluate the value for money of public spending, nationally and locally. Our recommendations and reports on good practice help government improve public services, and our work led to audited savings of more than £1 billion in 2011.

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Introduction

1 This Checklist¹ has been designed to help Audit Committees in central government assess how well they apply good practice. The criteria we have used are derived largely from the Audit Committee Handbook (March 2007)² published by HM Treasury.

2 The Handbook highlights five good practice principles which aim to answer the following key questions:

- **Principle 1: The Role of the Audit Committee** – Does the Audit Committee effectively support the Board and the Accounting Officer by reviewing the completeness of assurances to satisfy their needs, and by reviewing the reliability and integrity of these assurances?
- **Principle 2: Membership, Independence, Objectivity and Understanding** – Is the Audit Committee suitably independent and objective, and does each member have a good understanding of the objectives, priorities and risks of the organisation, and of their role on the Audit Committee?
- **Principle 3: Skills** – Does the Audit Committee contain or have at its disposal an appropriate mix of skills to perform its functions well?
- **Principle 4: Scope of Work** – Is the scope of the Audit Committee suitably defined, and does it encompass all the assurance needs of the Board and Accounting Officer?
- **Principle 5: Communication** – Does the Committee engage effectively with Financial and Performance Reporting issues, and with the work of internal and external audit? And does the Audit Committee communicate effectively with the Accounting Officer, the Board, and other stakeholders?

3 For each principle, we have developed a series of Good Practice Questions to help Audit Committees conclude whether they are meeting these principles. These are set out in **Section I** of this checklist.

4 In addition, the role of the Chair and the provision of appropriate secretariat support are key for an effective Audit Committee. The Handbook details Good Practice Questions on these two roles. **Sections II** and **III** of this checklist include questions that will enable the Audit Committee to determine if they currently meet this guidance.

1 This Checklist was originally published in November 2009 and has been updated (January 2012) to reflect the requirement for departments, their executive agencies and arm's-length bodies to produce a Governance Statement in place of the Statement on Internal Control in their annual report and accounts for 2011-12 onwards. Guidance on the Governance Statement is set out in the revised Chapter 3 of Managing Public Money (HM Treasury, 2011)

2 *Corporate governance in central government departments: Code of good practice* (HM Treasury, July 2011) provides that Audit Committees should be established and function in accordance with the *Audit Committee Handbook* (HM Treasury, March 2007).

How to use this Checklist

5 To help Audit Committees conclude as to whether they are meeting the Principles highlighted above, we have developed Good Practice Questions to inform the thinking process. These Questions are phrased to identify 'yes', 'no' or 'not applicable' responses.

6 We recognise, though, that organisations and their Audit Committees vary considerably in their size and in the complexity of issues that they deal with. In some circumstances, it may therefore be more appropriate to only use the more important Questions to help inform debate – and we have highlighted these in **bold**.

7 Also, the checklist is not exhaustive, and should the Audit Committee or their organisation feel that they have experience of other good working practice that will make the Committee work more effectively, they should not be deterred from implementing these practices, after consulting with the Board, if appropriate.

NAO Facilitated Workshops

8 To help Audit Committees use this checklist, the National Audit Office, as part of its performance improvement work, offers **Facilitated Workshops** for Audit Committees to help them use a tailored version of this checklist and draw conclusions as to their effectiveness. In this way, the workshop provides an opportunity for individual Audit Committees to work together, away from their normal business, to assess how well they work and establish areas to develop further. The workshop is followed up with an Action Plan that draws from the decisions and actions raised. This Action Plan will be owned by the Audit Committee, and act as the means by which decisions are implemented and reviewed.

9 If you would like the NAO to facilitate a workshop for your Audit Committee, please ask your usual NAO contact or Client Lead.

10 This checklist is also available as a Word document to enable Audit Committees to record their responses electronically.

National Audit Office

November 2009

Section I

Good practice principles for Audit Committees

Principle 1: The role of the Audit Committee

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

Good Practice Questions

Terms of Reference	Yes	No	N/A
1 Have all executive responsibilities, and making or endorsing of decisions been excluded from the roles and responsibilities of the Audit Committee members?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2 Does the Audit Committee follow up recommendations regarding its effectiveness?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3 Does the Audit Committee's role include monitoring and reviewing the executive's processes for assessing, reporting and owning business risks and their financial implications?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4 Has the role and responsibilities of the Audit Committee been clearly defined and communicated to all Audit Committee members, along with details of how the Committee supports the Board?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5 Are the Terms of Reference reviewed at least annually by the Board and the Audit Committee, to ensure that the work of the Audit Committee is aligned with good practice and business needs?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6 Do the Terms of Reference include rules for a quorum?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7 Does the Audit Committee meet regularly (at least four times a year), and do meetings coincide with key dates in the financial reporting and audit cycle?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

Members generally felt happy with the clarity of their role, and the work of the committee.

The Chair noted that the external members brought skills and experience in assurance that benefited the work and decision-making of the committee.

Members expressed concern about proposals to move to three meetings per year, on the basis that it would be harder to stay on top of occurrences at the HFEA. In addition, with the extra assurance needed on the IfQ project, the members preferred to retain the fourth meeting for the time being, and revisit the idea in six months.

Conclusions

Do we achieve **Principle 1: The Role of the Audit Committee** – Does the Audit Committee support effectively the Board and the Accounting Officer by reviewing the comprehensiveness of assurances to satisfy their needs, and by reviewing the reliability and integrity of these assurances?

What do we need to do to enhance the Audit Committee?

Actions:

- 1) Keep with plan to hold four meetings per yer, and re-visit proposal for three meetings per year in six months' time.
- 2) Ensure an action plan is kept in order to follow up on reviews of effectiveness.

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 none of the good practice questions.
- 2 some of the good practice questions.
- 3 most, if not all of the good practice questions.

Principle 2: Membership, Independence, Objectivity and Understanding

The Audit 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 an Audit Committee member.

Good Practice Questions

Independence		Yes	No	N/A
8	Is the Chair of the Audit Committee different from the Chair of the Board?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9	Are the Audit Committee members either independent non-executive Board members or independent external members, and have they been appointed for an appropriate period of time (e.g. three years)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Relationship with the Executive				
10	Are the Executive members of the organisation invited to attend Audit Committee meetings, participate in discussions, and provide information to the Audit Committee as and when the Audit Committee deems it necessary?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other Participants				
11	Where appropriate, does a representative from the sponsoring body attend the Audit Committee meetings (e.g. if an Executive Agency, does a member of the Sponsoring Department attend the meeting)?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
12	Does the Accounting Officer, Finance Director, Head of Internal Audit and the External Auditor routinely attend the Audit Committee, or attend at the request of the Audit Committee members?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
13	Are the numbers attending the Audit Committee meetings sufficient to deal adequately with the agenda, but not too many to blur issues?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Conflict of Interest				
14	Is the first agenda item of every meeting a request for the Audit Committee members to declare any potential conflict of interest with any of the business items on the Audit Committee's agenda?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Conflict of Interest (continued)		Yes	No	N/A
15	In instances where there is a declaration of interest in any of the agenda business items, are appropriate actions taken, e.g. is the member asked to leave the meeting while the business item is being discussed?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
16	In instances where the conflict of interest is likely to last for a long time, has the Audit Committee member been asked to relinquish his or her membership?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
17	Are the Audit Committee members required to declare their interest in a register of interests?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Terms of Appointment				
18	Do all Audit Committee members have a clear understanding of what is expected of them in their role, set out in a letter of appointment, including:			
	a. their appointment and purpose;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. the support and training that they will receive;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	c. the commitment required;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	d. their remuneration;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	e. conflict of interest procedures;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	f. expected conduct;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	g. duration of appointment and how often it may be renewed;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	h. how their individual performance will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance; and	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	i. termination conditions?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

Members noted that the independence of the COmmittee is ensured and enhanced by having two external members, in addition to the Authority members.

The Executive fully supported the committee and members did not feel that there were too few, nor too many, staff in attendance.

Members commented that they would expect to see th Accounting Officer (Chief Executive) more regularly.

Members noted that external attendees were welcome (i.e. NAO, DH, DHIA etc) and this did not in any way inhibit the committee from having frank discussions. It might be that, on occasion, items are discussed without external attendees being present.

Conclusions

Do we achieve **Principle 2: Membership, Independence, Objectivity and Understanding** – Is the Audit Committee suitably independent and objective, and does each member have a good understanding of the objectives, priorities and risks of the organisation, and of their role on the Audit Committee?

What do we need to do to enhance the Audit Committee?

- 1) Ensure Accounting Officer attends June meeting of the committee every year, as a minimum.
- 2) Circulate committee minutes to all Authority members once signed off to ensure visibility of work carried out by committee.

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 none of the good practice questions.
- 2 some of the good practice questions.
- 3 most, if not all of the good practice questions.

Principle 3: Skills

The Audit Committee should collectively possess an appropriate skills mix to perform its functions well.

Good Practice Questions

Range of Skills	Yes	No	N/A
19 Are there formal assessment criteria for the appointment of the Audit Chair, including attitudes to non-executives, strength of personality, experience of chairing, and time commitment?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
20 Do the assessment criteria of Committee members include, or expect Audit Committee members to acquire as soon as possible after appointment:			
a. understanding of the objectives of the organisation and current significant issues for the organisation;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. understanding of the organisation's structure, including key relationships such as that with a sponsoring department or major partner;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. understanding of the organisation's culture;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. understanding of any relevant legislation or other rules governing the organisation; and	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. broad understanding of the government environment, particularly accountability structures and current major initiatives?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21 Does the Audit Committee ensure that there are areas of collective understanding, including:			
a. accountancy – with at least one member having recent and relevant financial experience;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
b. governance, assurance and risk management;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
c. audit;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d. technical or specialist issues pertinent to the organisation's business;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e. experience of managing similar sized organisations;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f. understanding of the wider environments in which the organisation operates; and	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g. detailed understanding of the government environment and accountability structures?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Skills		Yes	No	N/A
22	Do the Audit Committee members feel empowered to:			
a.	co-opt members for a period of less than one year to provide specialist skills that the members do not have to be an effective Committee;	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
b.	procure specialist advice at reasonable approved expense to the organisation, on an ad-hoc basis to support them in relation to particular pieces of Committee business.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Training and Development				
23	Is there an induction checklist for new Audit Committee members that details key things that they must do e.g. visits to important business locations, meetings with Board, Risk Manager, Internal Audit and External Auditors?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
24	Do all new members of the Audit Committee attend an induction training course for Audit Committee members run by the National School of Government, or other sector-related organisation?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
25	Does the Audit Committee ensure that new members have sufficient knowledge of the business to identify the key risk areas and to challenge both line management and internal and external auditors on critical and sensitive issues?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
26	Does the Audit Committee and the Chair make recommendations to the Board on the Committee's and individual members training needs?	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
27	Does the Audit Committee keep abreast of best practice and developments in corporate governance in central government and more widely?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

Members felt that they had the right skills mix, being from different backgrounds (lay, financial, audit) but with a shared understanding of the work, culture and ethos of the HFEA. All members are aware of wider government and/or health sector environment.

Additional expert (e.g. legal, clinical, governance) support would be available should the committee want it.

The Chair noted that the external members would benefit from observing an Authority meeting and inspection - the Executive would arrange this. The committee further agreed that the members would have an annual appraisal with the Chair.

Conclusions

Do we achieve **Principle 3: Skills** – Does the Audit Committee contain or have at its disposal an appropriate mix of skills to perform its functions well?

What do we need to do to enhance the Audit Committee?

- 1) Arrange for external members to attend Authority meeting as observers
- 2) Arrange for external members to observe an inspection.
- 3) Arrange for members to have an annual appraisal with the Chair, adhering to the Authority member appraisal timescales.

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 none of the good practice questions.
- 2 some of the good practice questions.
- 3 most, if not all of the good practice questions.

Principle 4: Scope of Work

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

Good Practice Questions

Relationship with Internal Audit		Yes	No	N/A
28	Does the Audit Committee consider the independence and effectiveness of Internal Audit?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
29	Does the Audit Committee consider that the experience, expertise and professional standard of the Internal Audit team are appropriate for the size, complexity, and inherent risk of the organisation?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
30	Does the Audit Committee consider that the scope of Internal Audit work, the available resources at its disposal, and their access to information and people allow it to address significant risks within the organisation?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
31	Does the Audit Committee review and approve the Internal Audit plan before they commence any work and make suggestions regarding risk and problem areas that the audit could address in the short and long term?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
32	Does the Audit Committee receive regular progress reports on studies/work undertaken by Internal Audit?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
33	Does the Audit Committee review internal audit reports and management responses to issues raised, and monitor the progress made on Internal Audit's recommendations?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Relationship with External Audit				
34	Where relevant, does the Audit Committee consider the independence, objectivity, and effectiveness of the External Auditors?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
35	Does the Audit Committee periodically obtain the views of the External Auditor on the work and effectiveness of the Audit Committee?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Relationship with External Audit (continued)		Yes	No	N/A
36	Is the Audit Committee informed by the External Auditors on an annual basis as to their quality control procedures and compliance with applicable UK ethics guidance?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
37	Does the Audit Committee consider the External Auditor's Audit Strategy before they commence work, and make suggestions regarding risk and problem areas the audit could address in the short and long term?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
38	Do the External Auditors inform the Audit Committee of key developments and issues at key stages of the audit?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
39	Where relevant, does the Audit Committee review the audit fees?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
40	Does the Audit Committee consider the management letter and other relevant reports (e.g. the NAO's Value for Money work), and the management's response, and monitor the progress made on the recommendations?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Relationship between Internal Audit and External Auditors				
41	Does the Audit Committee consider whether there are areas where joint working between Internal Audit and the External Auditors would be beneficial?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
42	Does the Audit Committee seek confirmation from Internal Audit and the External Auditors on the effectiveness of the relationship?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fraud				
43	Does the Audit Committee consider whether effective anti-fraud and corruption policies and procedures are in place and operating effectively?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
44	Does the Audit Committee consider whether there is a code of conduct and its distribution to employees?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
45	Does the Audit Committee consider whether management arrangements for whistle-blowing are satisfactory?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Internal Control		Yes	No	N/A
46	Does the Audit Committee consider whether corporate governance is embedded throughout the organisation, rather than treated as a compliance exercise?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
47	Does the Audit Committee consider whether the system of internal reporting gives early warning of control failures and emerging risks?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
48	Does the Audit Committee consider whether the Governance Statement is sufficiently comprehensive and meaningful, and the evidence that underpins it?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
49	Does the Audit Committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
50	Does the Audit Committee consider whether financial control, including the structure of delegations, enables the organisation to achieve its objectives and achieve good value for money?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
51	Does the Audit Committee monitor whether the organisation's procedures for identifying and managing business risk have regard for the relevant legislation and regulation?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Financial Reporting				
52	Does the Audit Committee review the first draft of the annual accounts before the External Auditors start work on them?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
53	Before the Accounting Officer signs off the Annual Report and Financial Statements, does the Audit Committee consider:			
	a. that the accounting policies in place comply with relevant requirements, particularly the Treasury's Financial Reporting Manual and Accounts Direction;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
	b. that there has been a robust process in preparing the accounts and annual report;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Financial Reporting (continued)		Yes	No	N/A
c.	whether the accounts and annual report have been subjected to sufficient review by management and by the Accounting Officer and/or Board;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
d.	that when new or novel accounting treatments arise, whether appropriate advice on accounting treatment has been taken;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
e.	whether there is an appropriate anti-fraud policy in place, and whether losses are suitably recorded;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
f.	whether suitable processes are in place to ensure accurate financial records are kept;	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
g.	whether suitable processes are in place to ensure regularity and propriety is achieved; and	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
h.	whether issues raised by the External Auditors have been given appropriate attention.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
54	Where the accounts have been qualified, does the Audit Committee consider the action taken by the Board to deal with the causes of the qualification?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
55	Does the Audit Committee satisfy itself that the annual financial statements represent fairly the financial position of the organisation, regardless of the pressures on executive management?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
56	Before the Accounting Officer signs off the Letter of Representation, does the Audit Committee review it and give particular attention to non-standard issues of representation?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

The committee noted that measures were in place to allow assurance the financial and governance procedures were set and adhered to. It noted that fraud was a low-risk threat in this particular organisation, but was reported at each committee meeting nevertheless.

The relationship between the committee (and its staff) and the external and internal auditors was good, despite recent personnel changes on all fronts. There was regular liaison and all parties felt comfortable having frank conversations.

The committee noted that it assures itself of the corporate governance of the organisation by (among other things) signing off the Annual Governance Statement.

Conclusions

Do we achieve **Principle 4: Scope of Work** – Is the scope of the Audit Committee suitably defined, and does it encompass all the assurance needs of the Board and Accounting Officer?

What do we need to do to enhance the Audit Committee?

1) The committee must have time and space for discussions with Internal Audit only, which could be at the end of a meeting. It was noted that this was unlikely to be necessary, but would be built in to the consideration of agendas in future nevertheless.

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 none of the good practice questions.
 - 2 some of the good practice questions.
 - 3 most, if not all of the good practice questions.
-

Principle 5: Communication

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

Good Practice Questions

Reporting to the Board		Yes	No	N/A
57	Does the Audit Committee send regular reports or provide oral updates to the Board that they review at their meetings?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
58	Does the Audit Committee provide an Annual Report to the Board, timed to support preparation of the Governance Statement?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
59	Does the Annual Report of the Audit Committee present the Committee's opinion about:			
a.	the comprehensiveness of assurances in meeting the Board and Accounting Officers needs;	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
b.	the reliability and integrity of these assurances;	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
c.	whether the assurance available is sufficient to support the Board and Accounting Officer in their decisions taken and their accountability obligations;	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
d.	the implication of these assurances for the overall management of risk;	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
e.	any issues the Audit Committee considers pertinent to the Governance Statement, and any long-term issues the Committee thinks the Board and/or Accounting Officer should give attention to;			
f.	financial reporting for the year;	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
g.	the quality of both Internal and External Audit and their approach to their responsibilities; and	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
h.	the Audit Committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Additional Comments:

The members felt that the two-monthly reporting back to the Authority board by the committee Chair worked well. This would be enhanced by the earlier recommendation to circulate the minutes once signed by the Chair. While there was no formal annual report, communication between the Chair of the committee and the Authority was good. A formal annual report would be prepared, timed to go with the Annual Governance Statement.

Members felt less exposed to the workings of the two external licensing appeals committees, and requested that thought be given to improving communication between the Authority/AGC members, and the external committees, both in terms of personnel and their work.

Conclusions

Do we achieve **Principle 5: Communication** – Does the Committee engage effectively with Financial and Performance Reporting issues, and with the work of internal and external audit? And does the Audit Committee communicate effectively with the Accounting Officer, the Board and other stakeholders?

What do we need to do to enhance the Audit Committee?

- 1) Institute formal annual report to Authority board
- 2) Give thought to improving communication from external appeals committees to AGC/Authority board, while maintaining independence of those committees.

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 none of the good practice questions.
 - 2 some of the good practice questions.
 - 3 most, if not all of the good practice questions.
-

Section II

The role of the Chair: good practice

The Chair of the Audit Committee has particular responsibility for ensuring that the work of the Audit Committee is effective, that the Committee is appropriately resourced, and that it is maintaining effective communication with stakeholders.

Good Practice Questions

	Yes	No	N/A
Agenda Setting			
60 Is the Board Secretary different from the Audit Committee Secretary?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
61 Does the Chair of the Audit Committee meet with the Committee Secretary before every meeting to discuss and agree the business for the meeting?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
62 Are inputs on Any Other Business formally requested in advance from Committee members and attendees?	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
63 Are outline agendas planned one year ahead to cover core activities and specific issues on a cyclical basis?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
64 Does the agenda exclude executive business, so that there is no overlap with the work of the Board whilst linking to the main elements of the organisation's business?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
65 Are the meetings set for a length of time which allows all business to be conducted, yet not so long that the meeting becomes ineffective?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
66 Does the Chair encourage full and open discussion and invite questions at the Audit Committee meetings?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Communication			
67 Does the Chair of the Audit Committee have open lines of communication with the Board, Head of Internal Audit, and the External Auditors?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
68 Does the Chair encourage all Committee members to have regular interface with the organisation and its activities to help them understand the organisation, its objectives, and business needs and priorities?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
69 Do reports to the Audit Committee communicate relevant information at the right frequency, time, and in a format that is effective?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
70 Does the Audit Committee issue guidelines concerning the format and content of the papers to be presented to the Committee?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

	Yes	No	N/A
Monitoring Actions			
71 Does the Chair or the Secretariat ensure that all action points from Committee meetings are appropriately acted upon?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
72 Does the Chair or the Secretariat ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
73 Is a report on matters arising made and minuted at the Audit Committee's next meeting?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Appraisal	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
74 Does the Chair ensure that the Committee members are provided with an appropriate appraisal of their performance as a Committee member?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
75 Does the Audit Committee Chair seek appraisal of their personal performance from the Accounting Officer or Chair of the Board?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
76 Are Audit Committee meetings well attended, with records of attendance maintained and reviewed annually by the Board?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Appointments	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
77 Is the Chair involved in the appointment of new Committee members, including providing advice on the skills and experience required of the new individual?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

The Chair recorded her thanks to the members, Executive and external attendees for their support and work on the committee. The members agreed that the committee was chaired efficiently and effectively.

As previously agreed, the Chair would institute appraisals for the members, in line with the Authority member appraisal timetable.

The Chair would be involved in the decision regarding the expiry of an existing external member's term of office.

Conclusions

Do we meet **Good Practice: the Role of the Chair** – Is the Committee appropriately resourced, work planned in advance as far as possible, and effective communication with stakeholders maintained?

What do we need to do to enhance the Audit Committee?

1) Ensure Chair of committee is involved in decision regarding expiry of existing external member's term of office.

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 none of the good practice questions.
 - 2 some of the good practice questions.
 - 3 most, if not all of the good practice questions.
-

Section III

Committee support: good practice

The Audit Committee should be provided with appropriate Secretariat support to enable it to be effective. This is more than a minute-taking function – it involves providing proactive support for the work of the Committee, and helping its members to be effective in their role.

Good Practice Questions

Does the Audit Committee Secretariat:	Yes	No	N/A
78 Commission papers as necessary to support agenda items?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
79 Circulate meeting documents to all Committee members, Internal Audit and External Auditors in good time before each meeting, to allow members time to study and understand the information e.g. at least one week before the meeting?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
80 Arrange for Executives/senior management to be available as necessary to discuss specific agenda items with the Audit Committee during meetings?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
81 Keep records of meetings and minutes after they have been approved by the Audit Chair and circulate them to Committee members, Head of Internal Audit, External Auditors, Board, and the Accounting Officer on a timely basis e.g. within one week of the meeting?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
82 Ask for confirmation that the minutes are a true and fair representation of a summary of the business taken by the Audit Committee?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
83 Ensure that the minutes clearly state all agreed actions, the responsible owner, when they will be done by and any advice given from any stakeholders?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Does the Audit Committee Secretariat: (continued)		Yes	No	N/A
84	Ensure action points are being taken forward between meetings?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
85	Support the Chair in the preparation of Audit Committee reports to the Board?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
86	Arrange the Chair's bilateral meetings with:			
	a. the Accounting Officer, the Head of Internal Audit, Director of the External Auditors;	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
	b. the Chair of the Board of sponsored NDPBs.	<input type="checkbox"/>	<input checked="" type="checkbox"/>	<input type="checkbox"/>
87	Keep the Chair and members in touch with developments and relevant background information about developments in the organisation?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
88	Maintain a record of when members' terms of appointment are due for renewal or termination?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
89	Ensure that appropriate appointment processes are initiated when required?	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

The committee felt it was well supported by the Executive, in particular the Secretary to the committee. Organisation is always very efficient, and communication between the Chair and the Secretary and other lead officers works well.

Conclusions

Do we meet **Good Practice: Support for the Committee** – Does the Committee receive appropriate support from its secretariat?

What do we need to do to enhance the Audit Committee?

Where we have carried out the self-assessment before, the audit committee has improved its performance against:

- 1 none of the good practice questions.
 - 2 some of the good practice questions.
 - 3 most, if not all of the good practice questions.
-

Where to find out more

The National Audit Office website is

www.nao.org.uk

Links to other websites

www.hm-treasury.gov.uk/audit_committee_handbook.htm

www.hm-treasury.gov.uk/d/mpm_annex3.1.pdf

If you would like to know more about
the NAO's work in this area please email

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