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Audit Committee, 24 June 2014

Audit Committee terms of reference mapping

Executive summary and recommendations

### **Introduction**

At its meeting on 20 March 2014, the Audit Committee requested that the Executive undertake a 'mapping exercise' in which the terms of the model terms of reference for an Audit and Risk Assurance Committee as set out in the Treasury's *Audit and Risk Assurance Committee Handbook* (April 2013) would be compared the HCPC's current terms of reference for the Audit Committee.

The HCPC's Audit Committee terms of reference meet the majority of the handbook's requirements. Differences the Committee may wish to consider are committee self-assessment, frequency of meetings and cooperation between the internal and external auditors, which are outlined in sections 14, 18 and 38 respectively of the Audit Terms of Reference mapping table.

### **Decision**

This paper is for discussion.

### **Background information**

The HCPC's code of corporate governance was reviewed at the Councils meeting on September 2013 and has been in effect from 1 January 2014. In April 2013 the Treasury published its *Audit and Risk Assurance Committee Handbook* which sets out the required arrangements for central government departments, Executive Agencies, executive Non-Departmental Public Bodies and other Arm's Length Bodies. Although the HCPC is a public sector statutory corporation, it is independent of government and is not an Executive Agency, Non-Departmental Public Body or Arm's Length Body.

### **Resource implications**

None

### **Financial implications**

None

### **Appendices**

Appendix 1: Audit Terms of Reference mapping table

Appendix 2: HCPC Audit Committee Terms of Reference

Appendix 3: Example terms of reference from the Treasury's *Audit and Risk Assurance Committee Handbook* (April 2013).

**Date of paper**

10 June 2014

## Introduction

In September 2013, the Council approved a new Code of Corporate Governance to take account of the proposals contained in the Health and Care Professions Council (Constitution) (Amendment) Order 2013. In approving this code the Council recognised that a newly appointed Council may wish to consider its corporate governance arrangements in due course and therefore the amendments which were made were limited to ensuring that the Code was fit for purpose.

At its meeting on 20 March 2014, the Audit Committee requested that the Executive undertake a 'mapping' exercise to compare the HCPC's Audit Committee terms of reference to the model terms of reference set out in the treasury's *Audit and Risk Assurance Committee Handbook* (April 2013).

While considering the model terms of reference, it is helpful to refer to the UK Corporate Governance Code, which sets out in its *Guidance on Audit Committees*, that audit committee arrangements must be proportionate and best suited to an organisation's needs. These arrangements will depend on the size, complexity and risk profile of the organisation.

The governance structure of the HCPC is that the Council are wholly responsible for the strategic direction of the HCPC. The Council reserves certain powers for itself, and operates a scheme of delegation in which the Executive Management Team are responsible for operational matters. The Council retains oversight of delegation. Unlike a board-led organisation, the Council is not scrutinising the decisions of its own members.

Whilst the Executive have undertaken to 'map' the HCPC's current Audit Committee terms of reference to the Treasury's model terms, the HCPC's scheme of delegation reserves the responsibility for the standing orders of any committee as the Council's alone

## Membership

The HCPC's code of Corporate Governance meets the requirements listed under membership. The HCPC's Audit Committee is a committee of the Council and has no executive powers, other than those specifically delegated in the Terms of Reference.

At its meeting on 17 September 2013, the Council agreed the Code of Corporate Governance. The composition of the Audit Committee was outlined as follows.

- '2.2 The Audit Committee...shall comprise three members, appointed by the Council on such terms as it shall determine of which:
- 2.2.1 at least one member shall have recent, significant and relevant financial experience; and
  - 2.2.2 at least two members shall be members of Council; and
  - 2.2.3 at least one member shall not be a member of Council.'

The Committee currently consists of two members of Council: Richard Kennett (Chair) and Keith Ross. At its meeting of 27 March 2013, the Council discussed and agreed the process to appoint the independent member. The Chair of the Committee took part in the selection process, however no appointment was made.

The Executive are currently preparing to run the process again with a view to the independent member being ratified by the Council at its meeting on 25 September 2014. This would enable the independent member to be in place for the 9 October 2014 Audit Committee meeting.

## **Reporting**

The Minutes of the Audit Committee are ratified at the subsequent Council meeting. In this way the Council are provided with a comprehensive report of the Audit Committee's business. The Chair of the Audit Committee is also invited to add any further comment to the minutes verbally.

At its meeting of the 20 March 2014, The Audit Committee agreed that, from 2013-14, an Audit Committee Annual Report will be imbedded within the HCPC's Annual Report and Accounts.

## **Responsibilities**

The Audit Committee currently undertakes the activities listed in this section. The exception is self-evaluation. At its meeting on 12 June 2006, the Audit Committee agreed that it would use the National Audit Office self-assessment checklist to review the Committee's effectiveness (on an annual basis). This annual reviews were considered at the following Audit Committee meetings 12 June 2006, 26 September 2008 and 23 September 2010. When the comprehensive review process for the Council members and Committee Chairs was introduced in 2010, the checklist approach was not deemed of added value.

Below the responsibilities outlined in this section are mapped against the HCPC's Audit Committee terms of reference;

- the strategic processes for risk, control and governance and the Governance Statement; (6/7)
- the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors; (5/7)
- the planned activity and results of both internal and external audit; (2/3/4)
- adequacy of management response to issues identified by audit activity, including external audit's management letter; (3/4)

- assurances relating to the management of risk and corporate governance requirements for the organisation; (6/7)
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services; (1)
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations; and (8)
- the Audit and Risk Assurance Committee will also periodically review its own effectiveness and report the results of that review to the Board. (-)

## **Rights**

The two requirements listed in this section are not represented in the HCPC code of corporate governance. However, the Audit Committee is able to procure specialist advice where it is felt this is needed.

A recent example of this is the tax advice on the status of HCPC council members and partners. Mazars provide for contingency days within their annual audit plan and the Audit Committee are able to advise on where best to use this resource.

## **Access**

The internal and external auditors have access to the HCPC Council, Council Chair, Audit Committee and the Chair of the Audit Committee. The Chair of the Audit Committee meets alone with the representatives of the internal and external auditors prior to each Audit Committee Meeting.

## **Meetings**

Current arrangements meet the requirements in this section. An exception is the frequency of Committee meetings. The handbook states that the Committee will meet at least four times a year. The HCPC's standing orders for Committees state that the Committee shall meet at such times as the committee shall determine and a minimum of 3 times in each year.

## **Information requirements**

The HCPC received the information listed in this section on a regular basis. The exceptions to this are the below reports;

- a report on co-operation between internal and external audit.
- the organisation's Risk Management strategy.

It is the external auditors' professional responsibility to determine whether and to what extent they can rely on the work of internal auditors<sup>1</sup>. External auditors are not required to use the work of internal or cooperate with them, but cooperation is seen as good practice, since it should result in more effective audits, reduced burden on the audited body, and better advice to the audited body on risk<sup>2</sup>. The NAO's Audit Completion Report (page 16) notes that the NAO have not placed reliance on the work of internal audit for the purpose of our work, but they have used internal audit's work to further inform it.

The Audit Committee should encourage its Internal and External Auditors to cooperate more effectively if it feels that this is required.

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<sup>1</sup> International Standard on Auditing 610

<sup>2</sup> Cooperation between internal and external auditors: a good practice guide, jointly prepared by HM Treasury and the NAO

[https://www.gov.uk/government/uploads/system/uploads/attachment\\_data/file/207223/Good\\_practice\\_guidance\\_-\\_co-operation\\_between\\_internal\\_and\\_external\\_auditors.pdf](https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/207223/Good_practice_guidance_-_co-operation_between_internal_and_external_auditors.pdf)

	Section	Audit and Risk Assurance Committee Handbook (April 2013)	HCPC
1.	Membership	Members of the Audit and Risk Assurance Committee are non-executive Board members: [list those who are appointed to the Audit Committee]	Members of the Audit Committee are Council members
2.		Members of the Audit and Risk Assurance Committee are Independent External members: [list those who are appointed to the Audit and Risk Assurance Committee; (in all cases indicate the date of appointment and when the appointment is due to end/become eligible for renewal)]	An Independent Audit Committee member is currently being recruited. The standing orders for the committee require that at least one member should not be a member of Council
3.		The Audit and Risk Assurance Committee will be chaired by [name]	Richard Kennett is the current chair of the Audit Committee. The HCPC does not name individuals within its code of corporate governance
4.		The Audit and Risk Assurance Committee will be provided with a secretariat function by [name]	The HCPC's secretariat department provides support to the Committee
5.	Reporting	The Audit and Risk Assurance Committee will formally report in writing to the Board and Accounting Officer after each meeting	The minutes of each meeting are formally ratified at the nearest Council meeting. The Audit Committee Chair is invited to add further comment verbally
6.		The Audit and Risk Assurance Committee will provide the Board and Accounting Officer with an Annual Report, timed to support finalisation of the accounts and the Governance Statement, summarising its conclusions from the work it has done during the year.	The Audit Committee will produce this report from 2013-14 onwards
7.	Responsibilities	Advising on the strategic processes for risk, control and governance and the Governance Statement	Terms 6 and 7 of Audit Committee ToR
8.		Advising on the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors	Terms 5 and 7 of Audit Committee ToR

9.		Advising on the planned activity and results of both internal and external audit	Terms 2, 3 and 4 of Audit Committee ToR
10.		Advising on the adequacy of management response to issues identified by audit activity, including external audit's management letter	Terms 3 and 4 of Audit Committee ToR
11.		Advising on the assurances relating to the management of risk and corporate governance requirements for the organisation	Terms 6 and 7 of Audit Committee ToR
12.		Advising on (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services	Term 1 of Audit Committee ToR
13.		Advising on anti-fraud policies, whistle-blowing processes, and arrangements for special investigations	Term 8 of Audit Committee ToR
14.		The Audit and Risk Assurance Committee will also periodically review its own effectiveness and report the results of that review to the Board	The Audit Committee do not currently undertake reviews of their own effectiveness
15.	Rights	The Audit and Risk Assurance Committee may co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience	This right is not within the code of corporate governance. Decisions relating to the Membership of the Committee are reserved for the Council
16.		The Audit and Risk Assurance Committee may procure specialist ad-hoc advice at the expense of the organisation, subject to budgets agreed by the Board	The Audit Committee is able to procure specialist advice where it is felt this is needed, though this right is not stated explicitly within the code of corporate governance
17.	Access	The Head of Internal Audit and the representative of External Audit will have free and confidential access to the Chair of the Audit and Risk Assurance Committee	The HCPC's internal and external auditors have confidential access to the HCPC Council, Chair of Council, Audit Committee and the Chair of the Audit Committee

18.	Meetings	The Audit and Risk Assurance Committee will meet at least four times a year. The Chair of the Audit and Risk Assurance Committee may convene additional meetings, as they deem necessary	The HCPC's standing orders for Committees state that the Committee shall meet at such times as the committee shall determine and a minimum of 3 times in each year
19.		A minimum of [number] members of the Audit and Risk Assurance Committee will be present for the meeting to be deemed quorate	The quorate for the Audit Committee is set out in the HCPC's Standing Orders for Committees. Current quorate is 2 members
20.		Audit and Risk Assurance Committee meetings will normally be attended by the Accounting Officer, the Finance Director, Risk Manager, Head of Internal Audit, and a representative of External Audit [add any others who may routinely attend such as representatives of sponsoring/sponsored bodies]	The HCPC's Chief Executive and Registrar (who is Accounting Officer), Finance Director, Head of Business Process Improvement, Internal Audit representative, and External Audit representative attend each Audit Committee meeting
21.		The Audit and Risk Assurance Committee may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter	The Audit Committee are able to request the attendance of whomever they deems necessary. This is not explicitly documented in the code of corporate governance
22.		The Audit and Risk Assurance Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters	The Audit Committee are able to request that all non-committee members withdraw from a meeting if it is deemed necessary. The reasons for entering private session are set out in the code of corporate governance standing orders for Council and Committees
23.		The Board or the Accounting Officer may ask the Audit and Risk Assurance Committee to convene further meetings to discuss particular issues on which they want the Committee's advice	The HCPC has previously convened extra meetings, this remains available to the Council and Accounting Officer if required

24.	Information requirements (Every Meeting)	A report summarising any significant changes to the organisation's strategic risks and a copy of the strategic/corporate Risk Register	The Corporate risk register is presented to the Committee twice a year. The Head of Business Process Improvement's regular report also highlights any changes to the register
25.		A progress report from the Head of Internal Audit summarising: <ul style="list-style-type: none"> <li>• work performed (and a comparison with work planned);</li> <li>• key issues emerging from the work of internal audit;</li> <li>• management response to audit recommendations;</li> <li>• changes to the agreed internal audit plan; and</li> <li>• any resourcing issues affecting the delivery of the objectives of internal audit</li> </ul>	The Committee regularly receives update reports from the internal auditors
26.		A progress report (written/verbal) from the External Audit representative summarising work done and emerging findings (this may include, where relevant to the organisation, aspects of the wider work carried out by the NAO, for example, Value for Money reports and good practice findings)	The Audit committee receives all management letters received from the NAO
27.		Management assurance reports; and	The Committee receive all internal audit reports as and when they are issued
28.		Reports on the management of major incidents, "near misses" and lessons learned	The Head of Business Process Improvement's regular report includes a summary of near miss incidents
29.		Information requirements (as and when appropriate)	Proposals for the terms of reference of internal audit / the internal audit charter
30.		The internal audit strategy	The Committee is consulted on the plans for internal audit. See line 9 of this table
31.		The Head of Internal Audit's Annual Opinion and Report	The Committee is provided with this report when issued. See lines 9 and 10 of this table

32.	Quality Assurance reports on the internal audit function	The Committee undertakes performance reviews of the internal auditor
33.	The draft accounts of the organisation	The Committee is provided with the draft accounts prior to their presentation to Council. See line 8 of this table
34.	The draft Governance Statement	The Committee is provided with the draft Governance Statement prior to its presentation to Council. See line 7 of this table
35.	A report on any changes to accounting policies	The Committee consider and advise on any proposed changes to the HCPC's accounting policies. See line 8 of this table
36.	External Audit's management letter	The Committee is provided with the external auditors management letter. See lines 8 and 9 of this table
37.	A report on any proposals to tender for audit functions	The Committee is consulted on the tender process and selection of the internal auditor. See line 12 of this table
38.	A report on co-operation between internal and external audit	Such a report has not previously been presented to the Committee. The Audit Committee should encourage its Internal and External Auditors to cooperate more effectively if it feels that this is required
39.	The organisation's Risk Management strategy	Such a report has not previously been presented to the Committee, however the Committee has received the 'risk appetite' document and the

			executive has undertaken to collate the relevant information into one document which is included on the Committee's agenda for the 24 June 2014
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## Annex A

### AUDIT COMMITTEE: TERMS OF REFERENCE

The Audit Committee shall:

1. advise the Council and the Registrar (as Accounting Officer) on the appointment of internal and external auditors;
2. approve internal and external audit programmes and fees;
3. review the external auditors' management letters and any other relevant reports and report on these to the Council as appropriate;
4. receive reports on the internal audit work plan and consider appropriate action arising from them;
5. review the Council's annual report and accounts and make recommendations to the Council and the Registrar (as Accounting Officer) as appropriate;
6. consider whether risk management processes are adequate for all risks to which the Council is exposed and approve or, where the Committee considers that significant policy issues are involved, recommend that the Council approve measures to eliminate or mitigate against them;
7. at the request of the Council, advise it on matters of corporate governance (but without prejudice to the Committee's power to make recommendations to the Council on corporate governance issues arising from the work of the auditors);
8. consider and make recommendations to the Council and the Registrar (as Accounting Officer) as appropriate on the council's.
  - 8.1 accounting policies;
  - 8.2 anti-fraud policies; and
  - 8.3 'whistle-blowing' processes.

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## Example terms of reference

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The Board has established an Audit and Risk Assurance Committee as a Committee of the Board to support them in their responsibilities for issues of risk, control and governance 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.

### Membership

The members of the Audit and Risk Assurance Committee are:

- Non-executive Board members: [list those who are appointed to the Audit Committee].
- Independent External members: [list those who are appointed to the Audit and Risk Assurance Committee; (in all cases indicate the date of appointment and when the appointment is due to end/become eligible for renewal)].
- The Audit and Risk Assurance Committee will be chaired by [name].
- The Audit and Risk Assurance Committee will be provided with a secretariat function by [name].

### Reporting

- The Audit and Risk Assurance Committee will formally report in writing to the Board and Accounting Officer after each meeting.
- The Audit and Risk Assurance Committee will provide the Board and Accounting Officer with an Annual Report, timed to support finalisation of the accounts and the Governance Statement, summarising its conclusions from the work it has done during the year.

### Responsibilities

The Audit and Risk Assurance Committee will advise the Board and Accounting Officer on:

- the strategic processes for risk, control and governance and the Governance Statement;
- the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
- the planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity, including external audit's management letter;

- assurances relating to the management of risk and corporate governance requirements for the organisation;
- (where appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services;
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations; and
- the Audit and Risk Assurance Committee will also periodically review its own effectiveness and report the results of that review to the Board.

## Rights

The Audit and Risk Assurance Committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience;
- procure specialist ad-hoc advice at the expense of the organisation, subject to budgets agreed by the Board.

## Access

The Head of Internal Audit and the representative of External Audit will have free and confidential access to the Chair of the Audit and Risk Assurance Committee.

## Meetings

- The Audit and Risk Assurance Committee will meet at least four times a year. The Chair of the Audit and Risk Assurance Committee may convene additional meetings, as they deem necessary;
- A minimum of [number] members of the Audit and Risk Assurance Committee will be present for the meeting to be deemed quorate;
- Audit and Risk Assurance Committee meetings will normally be attended by the Accounting Officer, the Finance Director, Risk Manager, Head of Internal Audit, and a representative of External Audit [add any others who may routinely attend such as representatives of sponsoring/sponsored bodies];
- The Audit and Risk Assurance Committee may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter;
- The Audit and Risk Assurance Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters;
- The Board or the Accounting Officer may ask the Audit and Risk Assurance Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

## Information requirements

For each meeting the Audit and Risk Assurance Committee will be provided (well ahead of the meeting) with:

- a report summarising any significant changes to the organisation's strategic risks and a copy of the strategic/corporate Risk Register;
- a progress report from the Head of Internal Audit summarising:
  - work performed (and a comparison with work planned);
  - key issues emerging from the work of internal audit;
  - management response to audit recommendations;
  - changes to the agreed internal audit plan; and
  - any resourcing issues affecting the delivery of the objectives of internal audit;
- a progress report (written/verbal) from the External Audit representative summarising work done and emerging findings (this may include, where relevant to the organisation, aspects of the wider work carried out by the NAO, for example, Value for Money reports and good practice findings);
- management assurance reports; and
- reports on the management of major incidents, "near misses" and lessons learned.

As and when appropriate the Committee will also be provided with:

- proposals for the terms of reference of internal audit / the internal audit charter;
- the internal audit strategy;
- the Head of Internal Audit's Annual Opinion and Report;
- quality Assurance reports on the internal audit function;
- the draft accounts of the organisation;
- the draft Governance Statement;
- a report on any changes to accounting policies;
- external Audit's management letter;
- a report on any proposals to tender for audit functions;
- a report on co-operation between internal and external audit; and
- the organisation's Risk Management strategy.

*The above list suggests minimum requirements for the inputs which should be provided to the Audit and Risk Assurance Committee. In some cases more may be provided. For instance, it might be agreed that Audit and Risk Assurance Committee members should be provided with a copy of the report of every internal audit assignment, or with copies of management Stewardship Reports (or equivalents) if these are used in the organisation.*