

Audit Committee 26 September 2008

Review of the Audit Committee's effectiveness

Executive summary and recommendations

**Introduction**

At its meeting on 12 June 2006, the Audit Committee agreed that it would in future use the National Audit Office (NAO) self-assessment checklist to review the Committee's effectiveness (on an annual basis).

The checklist is attached as an appendix to the paper. The Secretary to the Committee has completed responses to the questions and included comments for clarification where needed. The answers to the questions are based on the responses agreed by the Committee on 25 September 2007, although the NAO has since revised the checklist.

**Decision**

The Committee is asked to review its performance against the self-assessment checklist and identify any areas which require further attention.

**Background information**

See item 8 in the minutes of the Audit Committee held on 12 June 2006 for the decision to use the NAO self-assessment checklist.

For the self-assessment checklist used in 2007, see enclosure 10 (paper AUD 56/07) for the Audit Committee on 25 September 2007 and item 13 in the minutes of that meeting, available on the HPC website.

The NAO checklist is available from the NAO's website at:  
[www.nao.org.uk/practice\\_areas/FMAG/Audit\\_Committees.htm](http://www.nao.org.uk/practice_areas/FMAG/Audit_Committees.htm)

**Resource implications**

None.

**Financial implications**

None.

**Appendices**

National Audit Office self-assessment checklist.

**Date of paper**  
10 July 2008.



National Audit Office

Financial Management and Governance Practice

The Audit Committee

# Self-Assessment Checklist



# Helping the nation spend wisely

## **The National Audit Office scrutinises public spending on behalf of Parliament.**

The Comptroller and Auditor General is an Officer of the House of Commons. He is the head of the National Audit Office, which employs some 850 staff. He, and the National Audit Office, are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources.

For further information, please ask your usual NAO contact or Client Director or:

National Audit Office  
157-197 Buckingham Palace Road,  
Victoria, London, SW1W 9SP

020 7798 7000

Email: [Z5-FMGP@nao.gsi.gov.uk](mailto:Z5-FMGP@nao.gsi.gov.uk)

# Introduction



Non-Executives can provide a constructive challenge to accepted wisdom within organisations, as well as alerting them to risks and opportunities. ...Fully developed, audit committees could help to identify and focus attention on common problems and themes.

Lord Sharman: "Holding to Account: The Review of Audit and Accountability for Central Government"



1. This Checklist 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), 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 support effectively 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 which will enable the Audit Committee to determine if they currently meet this guidance.

### How to Use this Checklist

5. To help Audit Committees conclude on whether they are meeting the Principles highlighted above, we have developed the 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 Good Governance work, has a rolling programme of **Facilitated Workshops** for Audit Committees to help them use a tailored version of this checklist and draw conclusions as to their effectiveness. The workshop is followed up with an Action Plan which 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 Director.

**National Audit Office**  
**October 2007**

## Good Practice Questions

Supporting The Board	Yes	No	N/A
1. <b>Has the role of the Audit Committee been clearly defined and communicated to all Audit Committee members?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
2. Have all executive responsibilities, and making or endorsing of decisions been excluded from the roles and responsibility of the Audit Committee members?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the Audit Committee follow up recommendations regarding its effectiveness?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
4. <b>Does the Audit Committee's role include monitoring the Executive's processes for assessing business risks and the financial implications?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the Executive report to the Audit Committee on how key business risks and their financial implications are being dealt with?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
6. <b>Does the Audit Committee consider whether each of the significant business risks is owned and properly managed by a member of the Executive?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
7. Have the Audit Committee agreed their Terms of Reference with the Board?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
8. Are the Terms of Reference in line with good practice e.g. HM Treasury's Audit Committee Handbook?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
9. <b>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 the business needs?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

## 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 completeness of assurances to satisfy their needs, and by reviewing the reliability and integrity of these assurances?

The Committee does effectively support the Council and the Accounting Officer by reviewing the completeness, reliability and integrity of the assurances.

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

## Good Practice Questions

### Independence

10. **Is the Chair of the Audit Committee different from the Chair of the Board?**

Yes

No

N/A

Yes

11. **Are all the Audit Committee members independent non-executive Board members?**

Yes

All committee members are non-executives,

12. **If there are insufficient non-executive Board members to form the Audit Committee, have independent external members been appointed to the Audit Committee?**

Yes

13. **If there are sufficient non-executives on the Board, is there rotation onto the Audit Committee?**

Yes

Comment: rotation of committee membership is currently frozen pending the re-structuring of the Council under the proposals in the White Paper published in 2007, 'Trust Assurance and Safety: The regulation of health professionals in the 21<sup>st</sup> century'. This is in accordance with the Council decision made on 31 May 2007.

14. **Are independent external members appointed for an appropriate period of time (e.g. 3 years)?**

Yes

### Relationship with the Executive

15. **Do Executive members of the organisation attend Audit Committee meetings, participate in discussions, and provide information to the Audit Committee as and when the Audit Committee deems it necessary?**

Yes

### Other Participants

16. **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)?**

N/A

Comment: Under the Health Professions Order 2001, the HPC reports to the Privy Council rather than a Department (see articles 42-44 of the Health Professions Order 2001).

17. **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?**

Yes

18. **Are the numbers attending the Audit Committee meetings sufficient to deal adequately with the agenda, but not too many to blur issues?**

Yes



## Conflict of Interest

	Yes	No	N/A
19. Is the first agenda item of every meeting a request from the Audit Committee members to declare any potential conflict of interest with any of the business items on the Audit Committee's agenda?	<input type="checkbox"/>	No <input type="checkbox"/>	<input type="checkbox"/>

Comment: Members are asked to register their interests every year and these are published on the HPC website. The council members' code of conduct (agreed by Council on 29 May 2008) also requires members to declare any interests relating to the items on the agenda.

20. 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 been discussed?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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Comment: Usually the member will be asked to leave the meeting while the item is discussed and the declaration of interest would be minuted, along with the action taken.

21. In instances where the conflict of interest is likely to last for a long time, has the Audit Committee member been asked to relinquish their membership?	<input type="checkbox"/>	<input type="checkbox"/>	N/A
22. Are the Audit Committee members required to declare their interest in a register of interest?	Yes	<input type="checkbox"/>	<input type="checkbox"/>

## Terms of Appointment

23. Have all Audit Committee members received a letter of appointment that clearly sets out:

Comment: Members have this information available to them, via the members' extranet.

a) their appointment and purpose;	Yes	<input type="checkbox"/>	<input type="checkbox"/>
b) the support and training that they will receive;	Yes	<input type="checkbox"/>	<input type="checkbox"/>
c) the commitment required;	Yes	<input type="checkbox"/>	<input type="checkbox"/>
d) their remuneration;	Yes	<input type="checkbox"/>	<input type="checkbox"/>
e) their appraisal;	Yes	<input type="checkbox"/>	<input type="checkbox"/>
f) conflict of interest procedures;	Yes	<input type="checkbox"/>	<input type="checkbox"/>
g) expected conduct;	Yes	<input type="checkbox"/>	<input type="checkbox"/>
h) duration of appointment and how often it may be renewed; and	Yes	<input type="checkbox"/>	<input type="checkbox"/>
i) termination conditions?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
24. Do all members of the Audit Committee have a clear understanding of what is expected of them in their role, including time commitments?	Yes	<input type="checkbox"/>	<input type="checkbox"/>

**Terms of Appointment (continued)****Yes****No****N/A**

25. Do all members of the Audit Committee have a clear understanding of how their individual performances will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance and the criteria which would indicate the termination of their membership?

Yes

Additional Comments: Appraisal of Council members is conducted by the President. Appraisal of the accountant member of the Committee is conducted by the chairman of the committee.

**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?

Members of the Committee are all non-executives and have demonstrated during meetings that they are independent. Members have a good understanding of the objectives, priorities and risks of the organisation and of their role on the Committee.

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

**Principle 3: Skills**

The Audit Committee should corporately own an appropriate skills mix to perform its functions well.

**Good Practice Questions**

<b>Range of Skills</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
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26. 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"/>	No	<input type="checkbox"/>
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At its meeting on 25 September 2007, the committee agreed that it was not appropriate in HPC’s case to prepare formal assessment criteria for the appointment of the Chairman. (See minutes of the public meeting held on 25 September 2007, paragraph 13.16).

27. Do the Chairs of the Audit Committee and the Board and the other non-executive members consult widely before making recommendations on membership of the Committee?	<input type="checkbox"/>	<input type="checkbox"/>	N/A
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Appointments to the Council’s committees are made by formal agreement of the Council. The Council has agreed that members wishing to join the Audit Committee should submit a statement of their suitability for consideration by the President.

28. **Do the assessment criteria of Committee members include knowledge, experience, skills, personal qualities, and time available? NB: The Audit Committee Handbook suggests that all Audit Committee members should have, or acquire as soon as possible after appointment:**

- |  |     |                          |                          |
|--|-----|--------------------------|--------------------------|
| a) understanding of the objectives of the organisation and current significant issues for the organisation;                              | Yes | <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; | Yes | <input type="checkbox"/> | <input type="checkbox"/> |
| c) understanding of the organisation’s culture;  | Yes | <input type="checkbox"/> | <input type="checkbox"/> |
| d) understanding of any relevant legislation or other rules governing the organisation; and  | Yes | <input type="checkbox"/> | <input type="checkbox"/> |
| e) broad understanding of the government environment, particularly accountability structures and current major initiatives.              | Yes | <input type="checkbox"/> | <input type="checkbox"/> |

29. Does at least one member of the Audit Committee have recent and relevant financial experience that allows them to engage effectively with financial and management accounts reporting?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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30. Does the Audit Committee at least annually review their skills base to check that they have the necessary skills required to be an effective Committee?  No

31. Does the Audit Committee set down requirements for areas of collective understanding, including:

- a) accounting;  No
- b) risk management;  No
- c) audit;  No
- d) technical or specialist issues pertinent to the organisation's business;  No
- e) experience of managing similar sized organisations;  No
- f) understanding of the wider environments in which the organisation operates; and  No
- g) detailed understanding of the government environment and accountability structures?  No

Comment: At its meeting on 25 September 2007, the Committee noted that it did not set down requirements for collective understanding, but noted that, as agreed by the Council, members were asked to complete a statement of their suitability when applying to become members of the Committee. (See minutes of the public meeting held on 25 September 2007, paragraph 13.15).

**Additional Skills**

32. Do the Audit Committee members feel empowered to co-opt members for a period of less than 1 year to provide specialist skills that the members do not have to be an effective Committee?   N/A

Comment: There is no power to do this under the standing orders of the Committee.

33. Do the Audit Committee members feel empowered to 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? Yes

**Training and Development** Yes No N/A

34. Is there an induction checklist for new Audit Committee members that details key things that they must do e.g. site visits, meetings with Board, Risk Manager, Internal Audit and External Auditors? Yes

Comment: all new Council and Committee members attend an induction programme which includes a tour of the HPC's offices, presentations from the Executive and a meeting with the President and the Chief Executive. Other training is also offered to members, including equality and diversity training and training on the Health Professions Order 2001.

35. 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?  No

Comment: Council and Committee members receive a general induction to the HPC and training during the year (e.g. on the Health Professions Order 2001). The Audit Committee has agreed to receive annual training on aspects of its work, which usually takes place after its February meeting.

36. Do new Audit Committee members visit important business locations?   N/A

37. The Audit Committee ensures 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. Yes

38. Does the Audit Committee make recommendations to the Board on the Committee's training needs?   N/A

39. **Does the Audit Committee benchmark itself, in some way, against other Audit Committees?**   N/A

Comment: The Committee benchmarks itself against the good practice sent out in this checklist and in 2007 also conducted a committee self-assessment exercise approved by the Council.

## 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?

The Committee seems to work well, drawing on its members' range of skills and high-level experience. It has appointed an accountant member who contributes to meetings and who also observes the meetings of the Finance and Resources Committee. A reciprocal arrangement is in place where the accountant member of the Finance and Resources Committee observes meetings of the Audit Committee.

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

## 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
40. Does the Audit Committee consider the independence and effectiveness of Internal Audit?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
41. 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?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
42. 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?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
43. Does the Audit Committee make suggestions to Internal Audit regarding risk and problem areas that the audit could address in the short and long term?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
Comment: For example, in December 2007, the Committee agreed to approve a recommendation from the Executive that there should be an additional internal audit of data security. This was in response to the well-publicised loss of data in transit between HM Revenue and Customs and the National Audit Office. In June 2008, the Committee agreed that internal audit should follow up the internal control issues identified by the external auditors.			
44. Does the Audit Committee review and approve the Internal Audit plan before they commence any work?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
45. Does the Audit Committee receive regular progress reports on studies/work undertaken by Internal Audit?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
46. Does Audit Committee receive the Internal Audit report once Internal Audit has completed any planned and approved work?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
47. Does the Audit Committee review management response to issues raised by the work of Internal Audit, and monitor what progress management have made on Internal Audit's recommendations?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
Relationship with External Audit	Yes	No	N/A
48. Where relevant, does the Audit Committee consider the independence and effectiveness of the External Auditors?	Yes	<input type="checkbox"/>	<input type="checkbox"/>

	Yes	No	N/A
49. Does the Audit Committee periodically obtain the views of the External Auditor on the work and effectiveness of the Audit Committee?	<input type="checkbox"/>	No	<input type="checkbox"/>
50. Does the Audit Committee consider if the External Auditors have the correct experience and expertise to manage the audit effectively?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
51. Is the Audit Committee informed by the External Auditors as to their compliance with applicable UK ethics guidance?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
52. <b>Does the Audit Committee consider the External Auditor's Audit Strategy before they commence work?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
53. Does the Audit Committee seek specific assurance regarding the External Auditor's quality assurance procedures when considering their Audit Strategy?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
54. <b>Do the External Auditors inform the Audit Committee of key developments and issues at key stages of the audit?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
55. Does the Audit Committee make suggestions to the External Auditors regarding risk and problem areas the audit could address in the short and long term?	Yes, if appropriate	<input type="checkbox"/>	<input type="checkbox"/>
56. Where relevant, does the Audit Committee review the audit fees?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
57. <b>Does the Audit Committee discuss and consider why unadjusted errors in the draft financial statements detected by the External Auditors are not corrected?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
58. Does the Audit Committee consider the Management Letter from the External Auditors and other relevant reports (e.g. the NAO's Value for Money work)?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
59. <b>Does the Audit Committee review management's response to the Management Letter and monitor the progress made by management on the recommendations in the Management Letter?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
<b>Relationship Between Internal Audit and External Auditors</b>			
60. <b>Does the Audit Committee consider the effectiveness of relationships between Internal Audit and the External Auditors?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>

	Yes	No	N/A
61. Does the Audit Committee consider whether there are areas where joint working between Internal Audit and the External Auditors would be beneficial?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
62. Does the Audit Committee seek confirmation from Internal Audit and the External Auditors on the extent of co-operation between them?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
63. Does the Audit Committee consider whether Internal Audit and the External Auditors work together effectively to address significant risks to the organisation?	Yes	<input type="checkbox"/>	<input type="checkbox"/>

<b>Fraud</b>	Yes	No	N/A
64. <b>Does the Audit Committee consider whether effective anti-fraud and corruption policies and procedures are in place and operating effectively?</b>	<input type="checkbox"/>	<input type="checkbox"/>	N/A
65. Does the Audit Committee consider whether arrangements have been established to deal with situations of suspected or actual fraud?	<input type="checkbox"/>	<input type="checkbox"/>	N/A
66. Does the Audit Committee consider whether there is a code of conduct and its distribution to employees?	<input type="checkbox"/>	<input type="checkbox"/>	N/A

Comment: The Council has agreed that the Finance and Resources Committee should be responsible for human resources issues. A new employee handbook was agreed by the Finance and Resources Committee on 20 November 2007 and this addresses issues of employee conduct, fraud and whistleblowing.

67. Does the Audit Committee consider whether management arrangements for whistle blowing are satisfactory?	<input type="checkbox"/>	No	<input type="checkbox"/>
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Comment: Arrangements for whistleblowing are set out in the employee handbook which was agreed by the Finance and Resources Committee on 20 November 2007. The agreed policy for whistleblowing is that any issues raised should be brought to the attention of the President.

### **Statement On Internal Control (SIC)**

68. Does the Audit Committee consider whether corporate governance is treated as a compliance exercise or is being used to provide benefit to the organisation?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
69. Does the Audit Committee consider whether the system of internal reporting gives early warning of control failures and emerging risks?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
70. <b>Does the Audit Committee consider whether the SIC is meaningful, and what evidence underpins it?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
71. Does the Audit Committee review whether internal controls detailed in the SIC adequately address the material risks to the organisation?	Yes	<input type="checkbox"/>	<input type="checkbox"/>



- |  |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|
| 72. <b>Does the Audit Committee approve the SIC?</b>   | Yes                      | <input type="checkbox"/> | <input type="checkbox"/> |
| 73. Does the Audit Committee ensure that the SIC appropriately discloses action to deal with material problems that have arisen in year?   | Yes                      | <input type="checkbox"/> | <input type="checkbox"/> |
| 74. Does the Audit Committee ensure that they receive details on the operation of internal control, including any failures to implement recommendations accepted by the Executive Board from Internal Audit and the External Auditors? | Yes                      | <input type="checkbox"/> | <input type="checkbox"/> |
| 75. <b>Does the Audit Committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?</b>   | Yes                      | <input type="checkbox"/> | <input type="checkbox"/> |
| 76. Does the Audit Committee consider whether financial control, including the structure of delegations, enables the organisation to achieve its objectives and it achieve good value for money?                                       | <input type="checkbox"/> | <input type="checkbox"/> | N/A                      |

Comment: The Council has agreed that the Finance and Resources Committee is responsible for considering and recommending policies on financial management. The Council is responsible for approving any amendments to its Scheme of Delegation.

- |  |     |                          |                          |
|--|-----|--------------------------|--------------------------|
| 77. Does the Audit Committee monitor whether the organisation's procedures for identifying and managing business risk have regard for the relevant legislation and regulation? | Yes | <input type="checkbox"/> | <input type="checkbox"/> |
|--|-----|--------------------------|--------------------------|

### Financial Reporting

- |  |                          |                          |                          |
|--|--------------------------|--------------------------|--------------------------|
| 78. <b>Does the Audit Committee review the first draft of the annual accounts before the External Auditors start work on them?</b>                         | <input type="checkbox"/> | No                       | <input type="checkbox"/> |
| 79. <b>Before the Accounting Officer signs off the accounts do the Audit Committee consider:</b>   |                          |                          |                          |
| a) that the accounting policies in place comply with relevant requirements, particularly the Treasury's Financial Reporting Manual and Accounts Direction; | Yes                      | <input type="checkbox"/> | <input type="checkbox"/> |
| b) that there has been a due process in preparing the accounts and annual report and whether that process is robust;                                       | Yes                      | <input type="checkbox"/> | <input type="checkbox"/> |
| c) whether the accounts and annual report have been subjected to sufficient review by management and by the Accounting Officer and/or Board;               | Yes                      | <input type="checkbox"/> | <input type="checkbox"/> |
| d) that when new or novel accounting treatments arise, whether appropriate advice on accounting treatment has been taken;                                  | Yes                      | <input type="checkbox"/> | <input type="checkbox"/> |
| e) whether there is an appropriate anti-fraud policy in place and whether losses are suitably recorded;  | Yes                      | <input type="checkbox"/> | <input type="checkbox"/> |

<b>f) whether suitable processes are in place to ensure accurate financial records are kept;</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
<b>g) whether suitable processes are in place to ensure regularity and propriety is achieved; and</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
<b>h) whether issues raised by the External Auditors have been given appropriate attention?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
<b>80. Does the Audit Committee consider whether there is a risk of the accounts being qualified by the External Auditors?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
81. If 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 type="checkbox"/>	<input type="checkbox"/>	N/A
<b>82. 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?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
83. 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?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
<b>84. Does the Audit Committee review the Annual Report and the Financial Statements before signature by the Accounting Officer?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

### 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?

The scope of the Committee is defined in the standing orders, which have been agreed by the Council.

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

## 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
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85. Does the Audit Committee send regular reports or provide oral updates to the Board which they review at their meetings?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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Comment: Reports are made in the form of minutes of meetings.

86. <b>Does the Audit Committee provide an Annual Report to the Board, timed to support preparation of the Statement on Internal Control?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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Comment: There is a report on the committee's work as part of the annual report. The annual report includes the statement of internal control.

87. 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"/> | No                       | <input type="checkbox"/> |
| b) the reliability and integrity of these assurances;   | <input type="checkbox"/> | No                       | <input 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"/> | No                       | <input type="checkbox"/> |
| d) the implication of these assurances for the overall management of risk;  | <input type="checkbox"/> | No                       | <input type="checkbox"/> |
| e) any issues the Audit Committee considers pertinent to the Statement of Internal Control, and any long term issues the Committee thinks the Board and/or Accounting Officer should give attention to; | <input type="checkbox"/> | No                       | <input type="checkbox"/> |
| f) financial reporting for the year;  | <input type="checkbox"/> | <input type="checkbox"/> | N/A                      |
| g) the quality of both Internal and External Audit and their approach to their responsibilities; and  | <input type="checkbox"/> | No                       | <input 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"/> | No                       | <input type="checkbox"/> |

Additional Comments:

## 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?

The Committee does engage effectively with financial and performance issues and the work of internal and external audit. In addition, it receives regular reports on audits conducted by the British Standards Institute to ensure that HPC is compliant with the ISO standard 9001:2000. The Committee does communicate effectively with the Accounting Officer and the Board.

At its meeting on 25 September 2007, the Committee noted that the term 'stakeholders' in this context should be interpreted as meaning communication with the Privy Council and HM Treasury.

The annual report and accounts is received by the Privy Council and laid by the Privy Council Office in Parliament.

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

### 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 is maintaining effective communication with stakeholders.

### Good Practice Questions

Agenda Setting	Yes	No	N/A
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88. Should the Board Secretary be different from the Audit Committee Secretary?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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Comment: The Secretary to the Audit Committee and the Secretary to the Council are in the same department.

89. Does the Chair of the Audit Committee meet with the Committee Secretary before every meeting to discuss and agree the business for the meeting?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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Agendas are sent to the Chair by e-mail for agreement. Each agenda also includes an item for formal agreement of the agenda by the Committee.

90. Are inputs on Any Other Business formally requested in advance from Committee members and attendees?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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91. Are outline agendas planned one year ahead to cover core activities and specific issues on a cyclical basis?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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	<b>Yes</b>	<b>No</b>	<b>N/A</b>
92. 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?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
93. Can special meetings be organised to allow quick response to emergencies?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
94. 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?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
95. Does the Chair encourage full and open discussion and invite questions at the Audit Committee meetings?	Yes	<input type="checkbox"/>	<input type="checkbox"/>

### **Attendance**

96. <b>Do the Terms of Reference include rules for a quorum?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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### **Attendance**

97. Are attendance records maintained and reviewed annually by the Board?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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Comment: Attendance tables for committee meetings are included as part of the annual report, which is reviewed by the Council.

98. Are the Audit Committee meetings rotated between locations, where relevant, to give the members the opportunity to see various operating sites?	<input type="checkbox"/>	<input type="checkbox"/>	N/A
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### **Communication**

99. <b>Does the Chair of the Audit Committee have open lines of communication with the Board, Head of Internal Audit and the External Auditors?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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100. Does the Chair have bilateral meetings at least annually with: the Accounting Officer, Head of Internal Audit and the External Auditors?	Yes, if required	<input type="checkbox"/>	<input type="checkbox"/>
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101. 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?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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Comment: In the case of Council members, this would be the responsibility of the President.

	<b>Yes</b>	<b>No</b>	<b>N/A</b>
102. <b>Do reports to the Audit Committee communicate relevant information at the right frequency, time, and in a format that is effective?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>

103. Does the Audit Committee issue guidelines concerning the format and content of the papers to be presented to the Committee?	<input type="checkbox"/>	<input type="checkbox"/>	N/A
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Comment: The Secretariat has prepared a template for papers and advises the Executive on the format and content of papers as necessary.

### **Monitoring Actions**

104. <b>Does the Chair or the Secretariat ensure that all action points from Committee meetings are appropriately actioned?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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105. Does the Chair or the Secretariat ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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Comment: Minutes of meetings are sent to all members, including those who were absent.

106. Is a report on matters arising made and minuted at the Audit Committee's next meeting?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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### **Appraisal**

107. <b>Does the Chair ensure that the training needs of the Audit Committee members are identified and addressed?</b>	<input type="checkbox"/>	<input type="checkbox"/>	N/A
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Comment: The President undertakes an annual performance review of Council members, which includes identification of training needs. The Chairman undertakes the annual performance review of the accountant member of the committee.

108. Does the Chair ensure that the Committee members are provided with appropriate appraisal of their performance as a Committee member?	<input type="checkbox"/>	<input type="checkbox"/>	N/A
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See comment for question 107.

109. Does the Audit Committee Chair seek appraisal of their own performance from the Accounting Officer or Chair of the Board?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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110. <b>Does the Chair ensure that there is a periodic review, at least annually, of the overall effectiveness of the Audit Committee and its Terms of Reference?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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## Appointments

	Yes	No	N/A
111. 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 type="checkbox"/>	No	<input type="checkbox"/>

Comment: The Council has agreed that Council members applying for membership of the Audit Committee should submit a statement of suitability which will be considered by the President. Appointment of new Committee members is agreed by the Council.

Additional Comments:

## 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?

The Committee is appropriately resourced and work is planned for a year in advance. The programme of work for the year has been reviewed and agreed by the Committee. Effective communication with stakeholders is maintained.

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

### 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 pro-active support for the work of the Committee and helping its members to be effective in their role.

#### Good Practice Questions

<b>Does the Audit Committee Secretariat:</b>	<b>Yes</b>	<b>No</b>	<b>N/A</b>
112. Meet with the Chair of the Audit Committee to prepare agendas for meetings?	Yes	<input type="checkbox"/>	<input type="checkbox"/>

Comment: Draft agendas are sent by e-mail to the Chair of the Audit Committee for comment.

113. Commission papers as necessary to support agenda items?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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114. Circulate meeting documents to all Committee members, Internal Audit and External Auditors in good time before each meeting e.g. at least one week before the meeting?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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115. Arrange for Executives / senior management to be available as necessary to discuss specific agenda items with the Audit Committee during meetings?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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116. Keep records of meetings providing draft minutes for the Audit Chair's approval?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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117. Send the minutes of all Audit Committee meetings 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?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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Comment: Minutes are circulated to the Chairman and to Committee members for approval and to the Council as part of Council papers. Internal and external auditors receive the minutes as part of their papers for the next meeting.

118. Ask for confirmation that the minutes are a true and fair representation of a summary of the business taken by the Audit Committee?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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119. Ensure that the minutes clearly states all agreed action, when they will be done by the responsible owner, and any advice given from any stakeholders?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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120. <b>Ensure action points are being taken forward between meetings?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>
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121. Support the Chair in the preparation of Audit Committee reports to the Board?	<input type="checkbox"/>	<input type="checkbox"/>	N/A
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	Yes	No	N/A
122. Arrange the Chairs' bilateral meetings with: the Accounting Officer, the Head of Internal Audit, Director of the External Auditors, and in NDPBs, with the Chair of the Board?	Yes, if required		<input type="checkbox"/>
123. Keep the Chair and members in touch with developments and relevant background information about developments in the organisations?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
124. Maintain a record of when members' terms of appointment are due for renewal or termination?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
125. Ensure that appropriate appointment processes are initiated when required?	Yes	<input type="checkbox"/>	<input type="checkbox"/>
126. <b>Ensure that new members receive appropriate induction training, and that all members are supported in identifying and participating in ongoing training?</b>	Yes	<input type="checkbox"/>	<input type="checkbox"/>

Additional Comments:

## Conclusions

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

The Committee does meet the good practice set out above and does receive appropriate support.

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

### Useful References

1. **Higgs Report** (2003): Review of the Role and Effectiveness of Non-Executive Directors
2. **Smith Report** (2003): Audit Committees
3. **Combined Code on Corporate Governance** (2003)
4. **Good Governance Standard for Public Services** (2004)
5. **Code of Good Practice for Corporate Governance in Central Government Departments** (2005)
6. **HM Treasury Audit Committee Handbook** (revised 2007)
7. **ICAEW**: Miscellaneous guides, publications, and documents on the ICAEW website: <http://www.icaew.com/index.cfm?route=12764>

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1. **Higgs Report** (2003): Review of the Role and Effectiveness of Non-Executive Directors
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