

Audit Committee 25 September 2007

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's self-assessment checklist to review the Committee's effectiveness.

The checklist is attached as an appendix to the paper. The Secretary to the Committee has completed responses to the questions.

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.

Resource implications

None.

Financial implications

None.

Appendices

National Audit Office self-assessment checklist.

Date of paper

6 July 2007.

NATIONAL AUDIT OFFICE

AUDIT COMMITTEE

SELF-ASSESSMENT

CHECKLIST

GOOD PRACTICE QUESTIONS	ACTIONS REQUIRED
1. Relationships and Communication	
With the Executive Board	
Is the Audit Committee a committee of the Executive Board?	Yes
Does the Committee follow up recommendations agreed by the Executive Board?	["Executive Board" equates to Health Professions Council].
Does the Chair have open lines of communication with the Board?	Yes
Does the Committee periodically obtain assurance from the Executive Board on the effectiveness of the Audit Committee?	Yes
Does the Committee make a formal annual report on its own effectiveness to the Executive Board?	It can do so, if required
Do the Executive Board agendas include a regular report from the Audit Committee?	Yes, as part of the Council's annual report
Do the Executive Board agendas include a regular report from the Audit Committee?	Yes, in the form of the minutes of meetings
Does the Report from the Audit Committee communicate recommendations to the Board?	Yes, where relevant
Are outline agendas, without supporting papers, sent to other Executive Board members to keep them up-to-date with the Audit Committee's work?	No. The President receives all papers and can attend meetings. Agendas and public papers are published on the HPC website.
Do the Board receive the Audit Committee minutes?	Yes
Does the Chair of the Audit Committee meet with the Accounting Officer and Finance Director bilaterally at least once a year	There have been informal meetings

With Internal Audit	
Does the Chair have open lines of communication with the Head of Internal Audit?	Not applicable as there is no internal audit department. The Chair is in contact with the internal auditors as necessary.
Does the Committee periodically seek the views of internal audit on the work and effectiveness of the Audit Committee?	Yes, where required
Does the Chair of the Committee meet separately with the Head of Internal Audit at least once a year?	Not applicable as there is no Head of Internal Audit. The Chair is in contact with the internal auditors as necessary.
Does the Committee review and approve the internal audit plan and audit reports?	Yes
Does the Committee review the scope and remit of internal audit in the organisation?	Yes
Does the Committee consider whether the scope of internal audit work addresses the significant risks?	Yes
Does the Committee examine all individual terms of reference for internal audit's work?	Yes
Does the Committee consider the experience and expertise of the audit team?	Yes
Does the Committee monitor internal audit's progress in undergoing quality assurance or peer review procedures?	Yes. Internal audit progress reports are prepared for each meeting
Does the Committee monitor whether internal audit is working to professional standards relevant to the organisation?	Yes
Does the Committee monitor whether internal audit have the resources and right people with relevant expertise to carry out its remit?	Yes
Is the Committee Secretary role separate from internal audit?	Yes
Between internal and external audit	
Does the Audit Committee monitor the effectiveness of relationships between internal and external auditors?	Yes
Does the Committee consider whether internal and external audit have communicated and coordinated audit plans?	Yes
Does the Committee consider whether external audit places reliance on	Yes

the work of internal audit?

Does the Committee discuss whether there are areas where joint working would be beneficial?

Does the Committee consider whether all audit services are joined up, including in-house operational audits?

Does the Committee expect internal and external auditors to communicate effectively with each other about understanding key business risks, their assessments of risk areas and how their work will cover these key risk areas?

Does the Committee communicate this expectation to internal and external audit?

Does the Committee require an annual report from internal and external audit report on the extent of planned and actual co-operation between them?

Yes

Yes. Committee receives BSI quality management reports, in addition to internal and external audit reports.

Yes

Yes

No, although the external auditor's reporting on its findings included an explanation of how it had used internal audit work.

With External Audit

Does the Chair have open lines of communication with the external audit Director/Partner?

Does the Committee periodically obtain the views of external audit on the work and effectiveness of the Audit Committee?

Does the Chair of the Committee meet separately with the external audit Director/Partner at least once a year?

Does the Committee consider the experience and expertise of the audit team?

Does the Committee consider whether the audit Director/Partner will spend sufficient time on the audit and whether time to be spent by other audit staff seems reasonable?

Does the Committee monitor external audit's compliance with applicable UK ethics guidance relating to the rotation of audit Partners?

Does the Committee agree the external audit plans and management letters?

Does the Committee seek specific assurance regarding external audit's quality assurance procedures when considering their audit strategy?

Do external audit inform the Committee of key developments and issues at key stages of the audit?

Yes

Yes

Has met as required.

Yes

Yes

Yes

Yes

Yes

Yes

Does the Committee make suggestions to external audit regarding risk and problem areas the audit could address?	Yes
Does the Committee consider whether external audit focuses on the fundamental issues?	Yes
Does the Committee consider whether the external auditors have delivered fully against their plans?	Yes. Baker Tilly will also ask for feedback via client questionnaire.
Does the Committee monitor the performance of external audit?	Yes
Does the Committee review audit fees?	Yes

Communication with stakeholders

Does the Chair have open lines of communication with stakeholders?	Yes
Is the Committee’s membership published in the Annual Report?	Yes
Per the Combined Code/Smith Report, does the Annual Report contain a section on the roles and responsibilities of the Audit Committee and actions taken to discharge those responsibilities?	Yes

2. Business Risk and Internal Control

Assessing the scope and work of Internal and External Audit

Does the Committee satisfy itself that the organisation’s main risk areas are being reviewed by internal and external audit?	Yes
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Monitoring risk management arrangements

Does the Committee’s role include monitoring the Executive Board’s processes for assessing business risks and the financial implications?	Yes
Does the Committee ensure that internal and external audit report to them on what they perceive as the key risks now and in the short and long-term?	Yes
Do senior executives report to the Committee on how key business risks and their financial implications are being dealt with?	Yes
Do internal and external audit comment on the Executive Board’s reports on how key business risks are being dealt with?	Yes. The risk register was reviewed in conjunction with the internal auditor.
Is the Committee involved in reviewing the effectiveness of internal control?	Yes
Does the Committee consider whether corporate governance is treated as a compliance exercise or is being used to provide benefit to the organisation?	Yes

Does the Committee consider whether the system of internal reporting gives early warning of control failures and emerging risks?	Yes
Does the Committee consider whether each of the significant risks is sufficiently owned by a member of the Executive Board?	Yes
Does the Committee consider the need to raise the awareness of junior staff to the importance of risk management?	Yes

Statement on Internal Control and assurance from Internal and External Audit

Does the Committee consider how meaningful the SIC is?	Yes
Does the Committee review whether the SIC discloses adequately the processes for dealing with material internal control aspects of any significant problems disclosed in the annual report and accounts?	Yes
Does the Committee approve the SIC?	Yes
Does the Committee ensure that they receive from internal and external audit details on the operation of internal control, including any failures to implement recommendations accepted by the Executive Board?	Yes
Does the Committee satisfy itself that the system of internal control has operated effectively throughout the reporting period?	Yes

Fraud

Does the Committee consider whether effective anti-fraud and corruption policies and procedures are in place and operating efficiently?	The Committee discussed and agreed amendments to the whistleblowing policy in 2006.
Does the Committee consider whether arrangements have been established to deal with situations of suspected or actual fraud?	Yes
Does the Committee consider whether there is a code of conduct and its distribution to employees?	Yes
Does the Committee consider whether a whistle blowers' hotline is required?	Yes

3. Roles and Remit

Terms of Reference, roles and responsibilities

Are the Terms of Reference approved by the Executive Board?	Yes
Are the Terms of Reference reviewed at least annually?	Yes
Do the Terms of Reference adequately define the Committee's role and provide it with sufficient membership, authority, time and resources to	Terms of reference to be reviewed at September 2007 meeting and annually

perform its role effectively?

thereafter

Does the Committee consider the impact on their workload of changes to their role?

Yes

Does the role of the Committee include review of business risk and internal control, independence and effectiveness of internal and external audit, maintenance of proper accounting records and quality of financial statements, policies against fraud, implementation of new systems, tax and litigation matters involving uncertainty, compliance with laws and regulations?

Yes

Does the Committee's role include obtaining assurances relating to the corporate governance requirements for the organisation?

Yes

Are the Terms of Reference in line with the Audit Committee Handbook?

Yes

4. Meetings

Frequency

Does the Committee meet sufficiently often to monitor important issues?

Yes

Do the Terms of Reference set out the frequency of meetings?

Yes

Does the Committee calendar meet the organisation's business needs, governance needs and the financial calendar?

Yes

Are there at least 4 meetings a year (per Audit Committee Handbook) or 3 for smaller organisations?

Yes

Can special meetings be organised to allow quick response to emergencies?

Yes

Timing and length

Do the Terms of Reference set out the timing of meetings?

May only exceed three hours with the consent of the committee

Are the meetings set for a length of time which allows all business to be conducted, yet is not so long that the meeting becomes ineffective?

Yes

Agenda management

Does the Chair encourage full and open discussion and invite questions?

Yes

Are outline agendas planned one year ahead to cover issues on a cyclical basis?

Yes

(NB ICAEW Audit Committees guidance contains a specimen seasonal calendar and agendas, as does the Audit Committee Handbook for 4 meetings a year).

Does the agenda exclude executive business so that there is no overlap with the work of the Executive Board whilst linking to the main elements of the organisation's business?	Yes
Are inputs on Any Other Business formally requested well in advance from Committee members, Chief Executive, Finance Director, internal and external audit?	Yes
Is the Executive Board Secretary also the Audit Committee Secretary?	No but in same department
Attendance	
Do the Terms of Reference include rules for a quorum?	Yes
Are attendance records maintained and reviewed annually by the Executive Board?	Yes
Timing and content of Audit Committee papers	
Do reports to the Audit Committee communicate relevant information at the right frequency, time, and in a format that is effective?	Yes
Are agendas and their supporting papers, together with brief executive summaries of papers, issued to all Committee members, internal audit and external audit, giving them at least a week to consider the papers in advance?	Yes
Are there oral reports to the committee, supported by succinct, easy to read documents?	Yes
Does the Committee issue guidelines concerning the format and content of the papers to be presented to the Committee?	Standard format
Is there a proforma for written reports to ensure there is a focus on salient matters, there are clear recommendations, a timescale for completion and the individual responsible for implementation?	Standard format
Location	
Are the Committee meetings rotated between locations to give the members the opportunity to see various operating sites?	Not applicable
Actions arising	
Are minutes prepared and circulated to the appropriate people promptly?	Yes
Is a report on matters arising made and minuted at the Committee's next meeting?	Yes
Do action points indicate who is to perform what and by when?	Yes

Are actions allocated to a single person, rather than joint responsibility?

Yes, generally

5. Financial Information and Regulatory Matters

Understanding financial matters

Does the Committee consider how best to keep the Committee Chair abreast of public sector accounting requirements?

NAO should update the Committee on any changes to public sector accounting requirements.

Does the Committee provide support to the finance function in explaining the effects of financial and reporting requirements to the rest of the Executive Board?

Yes

Does the Audit Committee satisfy itself that:

Yes

- the organisation keeps proper accounting records?
- the annual financial statements represent fairly the financial position of the organisation?

Does the Committee gain an understanding of management's procedures for developing the organisation's financial report and the historical reliability of the organisation's financial reporting?

Yes

Does the Committee review the annual report and financial statements before signature by the Accounting Officer?

Yes

Do they consider specifically:

Yes

- Suitability of accounting policies and treatments
- Major judgements made
- Large write-offs
- Unusual credits
- Last minute transactions
- Changes in accounting treatment
- Unusual financial trends
- Unusual financial statement relationships
- Accounting treatments varying from the sector norm
- The impact on going concern of fundamental issues in the business
- The reasonableness of accounting estimates
- The reasonableness of other accounting entries requiring judgement
- Reporting on the wider financial aspects of the business eg the Operating and Financial Review
- The narrativial aspects of the reporting?

Does the Committee consider whether there is a risk of the accounts being qualified by the external auditors?	Yes
Does the Committee review the Letter of Representation before signature by management and give particular attention to non-standard issues of representation?	Yes
ISA 260 and External Audit	
Does the Committee liaise fully with the external auditors on matters concerning the financial statements?	Yes
Is there discussion of the unadjusted misstatements in the draft financial statements?	Yes
Do the Committee consider why unadjusted errors in the draft financial statements detected by the external auditors are not corrected?	Yes
Compliance with regulations	
Does the Audit Committee review whether the organisation complies with regulatory matters affecting the business?	Yes - as part of risk register and through liaison with internal auditors
Does the Committee monitor whether the organisation's procedures for identifying and managing business risk have regard for the relevant legislation and regulation?	Yes - as part of risk register and through liaison with internal auditors
Does the Committee enquire into whether there are procedures for making all employees aware of whistle blowing procedures?	Yes
6. Membership, Induction and Training	
Size	
Is the membership in the range of 3 to 5?	Yes
Are the numbers attending the meetings sufficient to deal adequately with the agenda, but not too many to blur issues?	Yes
Does the Committee ensure that the right people attend, especially those who will have meaningful input on agenda items?	Yes
Membership	
The Chairmanship of the Committee and the Executive Board should not be combined. Is this the case?	Yes
Do the Chairs of the Committee and the Executive Board and the other non-executive members consult widely before making recommendations on membership of the Committee?	Yes

Is the Head of Internal Audit invited to attend rather than being a member?	Internal and external auditors are invited to all meetings.
Is the role of any attendee of the sponsoring department clearly clarified?	Not applicable.
Where there is executive membership, is this rotated on an appropriate cycle (eg. 3 years)?	Not applicable.
Is the Committee membership mostly composed of non-executive or independent members?	Yes
If there are sufficient non-executives to do so on the Executive Board, is there rotation onto the Audit Committee?	Not currently. Committee memberships are to remain the same pending outcome of changes to governance.
Where the creation of an Audit Committee separate from the Board is not practicable, is consideration given to actions that enhance objectivity eg. appointment of a non-executive chair?	Not applicable.
Is the appointment of independent external members for an appropriate period of time (eg. 3 years)?	Normally two years but see comment above.

Independence, skills, experience

Does the Executive Board ensure that the membership of its Audit Committee demonstrates independence and the required mix of skills and experience?	There is a selection process requiring members to state their suitability, which is considered by the President
Do the Committee's corporate competencies include accountancy skills/recent and relevant financial experience/risk management/audit/technical skills relevant to the organisation/understanding of government environment?	Yes
Does the Committee set down requirements for areas of collective understanding?	No
Is there a formalised process for the Board to consider what the non-executives bring to the Committee?	Yes, appointments to the committee are agreed by the Council and President
Do the assessment criteria include knowledge, experience, personal qualities, time available? (NB Audit Committee Handbook contains a list of competencies for Committee members)	Yes
Are there formal assessment criteria for the appointment of the Chair, including attitudes to non-executives, strength of personality; experience of chairing and time commitment?	No - Chair and Vice-Chair are both elected by the Committee
How do candidates declare interests before appointment?	Through completion of register of interests (updated annually)

Are members required to declare interests in a register of interests and declare conflicts of interest on agenda items?	Yes - annually
Are Committee members subject to regular appraisal by the Executive Board?	Yes - by President
Dynamism and performance of Audit Committee	
Does the Executive Board ensure that the membership of the Audit Committee retains its dynamism?	Membership is usually reviewed every 2 years
Have recent developments created a need for a review of the work of the audit committee?	Yes
Does the Audit Committee assess its effectiveness annually?	Yes, at each September meeting
Does the Committee make a formal annual report on its own effectiveness to the Executive Board?	Currently through minutes and annual report included in HPC annual report.
How does the Committee benchmark itself against others?	Through using guidance on good practice
As part of self-assessment, does the Committee discuss the quality of the information it receives and make recommendations to the Executive Board on its training needs?	Committee has agreed to have an annual training session.
Induction of new members	
Do new members receive a copy of the Terms of Reference, a formal letter of appointment setting out responsibilities, term and remuneration?	All Council and Committee members receive a letter of appointment.
Do new non-executive members receive recent financial statements and other public reports, executive summaries of internal audit reports, commentaries on how recommendations have been followed up, external audit management letters, codes of conduct etc?	New members received minutes of 3 previous meetings and Standing Orders.
Is there an induction for new non-executive members?	Yes
Is there an induction checklist for new non-executives (Audit Committee members and others) including, for example: <ul style="list-style-type: none"> • Site visits • Attendance at Boards • Meeting with Risk Manager • Meeting with Corporate Quality Manager • Meeting with Head of Internal Audit • Meeting with External Audit • Link-up with the Government Non-Executive Network 	All Council and Committee members have an induction.

Do the new members visit important business locations?

Not applicable

Access to advice

Does the Chair contact the Chair of the Executive Board for approval for access to legal or other professional advice?

Yes, if they wish.

Does the Chair of the Executive Board ensure adequate budget to keep the members of the Committee updated on their role and provide access to legal and professional advice where necessary?

Training provided.

SOURCES OF GOOD PRACTICE USED TO COMPILE CHECKLIST

Forensic Science Service Audit Committee/ NAO	October 2003	Audit Committee Self-Assessment Workshop
Financial Reporting Council	July 2003	The Combined Code on Corporate Governance
ICAEW Audit and Assurance Faculty	May 2003	The Power of Three: Understanding the Roles and Relationships of Internal and External Auditors and Audit Committees
ICAEW Audit and Assurance Faculty	May 2003	Guidance for Audit Committees: <ul style="list-style-type: none"> • Company Reporting and Audit Requirements • Working with Your Auditors • Reviewing Auditor Independence • Evaluating Your Auditors
HM Treasury Financial Reporting Council	October 2003 January 2003	The Audit Committee Handbook Audit Committees - Combined Code Guidance (The Smith Report)
ICAEW Audit and Assurance Faculty	2001	The Effective Audit Committee: A Challenging Role
ICAEW Audit and Assurance Faculty	May 1997	Audit Committees - A Framework for Assessment

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