

Audit Committee 25 November 2010

Audit Committee terms of reference

Executive summary and recommendations

Introduction

On 23 September 2010, the Committee reviewed its terms of reference. The Committee's terms of reference were last updated as part of the review of HPC's corporate governance arrangements in May 2009, when the Council set the following 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 reports and to report on these to the Council as appropriate;
4. receive reports on the internal audit work plan and to consider appropriate action arising from them;
5. review the Council's annual report and accounts and to 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 to approve or, where the Committee considers that significant policy issues are involved, to 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).'

At the Committee meeting on 23 September 2010, it was suggested that two additional items should be added to the terms of reference:

- 'reviewing financial systems and accounting policies';
- 'continuing value for money, fraud and whistleblowing'

It was also suggested that point 3 of the terms of reference should be amended to read 'review the external auditors' management letters and any other *relevant* reports and to report on these to Council as appropriate.'

The Committee agreed that the Executive should review these suggestions to ensure that there was no overlap or conflict with the terms of reference for the Finance and Resources Committee and against the HM Treasury model terms of reference for audit committees (the **HMT Model Terms**).

Proposed amendments

- *'review the external auditors' management letters and any other relevant reports and to report on these to Council as appropriate.'*

It is recommended that point 3 should be amended to include the word 'relevant'.

- *'reviewing financial systems and accounting policies'*

The proposed wording of 'reviewing financial systems' seems to overlap with the Finance and Resources Committee's terms of reference, which among other things require that Committee to 'consider and recommend to the Council policies on financial management, investment and reserves, quality, human resources and information technology'.

The Audit Committee does already consider reviews of financial systems, for example through the external audit. In addition, since 2006 PKF has conducted an annual review of financial systems as part of the internal audit programme and reported its findings to the Committee. The Committee currently has discretion about the matters which should be covered by internal audit and external audit programmes.

The HMT Model Terms do not specifically mention 'reviewing financial systems' although this would be covered through other points in those model terms of reference. The HMT Model Terms do mention 'accounting policies' in relation to the accounts and the annual report.

- *'continuing value for money, fraud and whistleblowing'*

The HMT Model Terms do not specifically mention value for money.

The Council has agreed six guiding principles for its work, including: 'Value for money - the HPC will provide a value for money service for registrants and the

public. It will be open and proactive in accounting to all its customer groups regarding its work.'

The HMT Model Terms do state that the Committee should be responsible for 'anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.'

In the light of these points, it is recommended that a new point should be added to the Audit Committee's terms of reference, to read: 'to consider the Council's (a) accounting policies and (b) anti-fraud policies and the whistle-blowing processes and make recommendations to the Council and the Registrar (as Accounting Officer) as appropriate.'

The whistle-blowing process is included in the employee handbook, which was approved by the Finance and Resources Committee in November 2007.

Decision

The Committee is asked to agree the following amendments to its terms of reference and recommend these amendments to the Council:

Amend point 3 to read 'review the external auditors' management letters and any other *relevant* reports and to report on these to Council as appropriate.'

Add a new point (as point 8) to read 'to consider the Council's (a) accounting policies and (b) anti-fraud policies and the whistle-blowing processes and make recommendations to the Council and the Registrar (as Accounting Officer) as appropriate.'

Background information

Council, 20 May 2009, enclosure 16, Code of Corporate Governance.
Audit Committee, 23 September 2010, minutes, item 12.

Resource implications

None.

Financial implications

None.

Appendices

1. Extract from Audit Committee Handbook, published by HM Treasury, March 2007
2. Finance and Resources Committee terms of reference

Date of paper

1 October 2010.

Appendix 1 – Extract from Audit Committee Handbook, published by HM Treasury, March 2007

Responsibilities

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

- the strategic processes for risk, control and governance and the Statement on Internal Control;
- 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 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;
- the Audit Committee will also periodically review its own effectiveness and report the results of that review to the Board.

Appendix 2 – Finance and Resources Committee terms of reference

The Finance and Resources Committee shall:-

1. consider and recommend to the Council a five year plan;
2. consider and recommend to the Council the annual budget;
3. consider and recommend to the Council work plans for the Information Technology, Human Resources and Operations Departments;
4. At least once each year, the Finance and Resources Committee shall meet, or appoint a sub-committee from among its members to do so, as the Remuneration Committee to determine the salaries of the Chief Executive, employees who are members of the Executive Management Team and all other HPC employees.
5. consider and recommend to the Council policies on financial management, investment and reserves, quality, human resources and information technology;
6. consider and approve, or, where the Committee considers that significant policy issues are involved, to recommend that the Council approve, major capital expenditure;
7. consider and award, or, where the Committee considers significant policy issues are involved, to recommend that the Council award, major contracts;
8. receive and review Management Information Reports;
9. consider any policy proposals with significant financial or resource implications and to make recommendations to the Council as appropriate; and
10. perform such other functions as the Council may delegate to or confer upon the Committee.