

## Audit Committee

### 3.2 Role

3.2.1 The Audit Committee is appointed by the Board of Trustees to assist the Board of Trustees in discharging its oversight responsibilities. It does this by providing the key link between the Director-General, the Board of Trustees, the risk and assurance function and the external auditors. It also addresses financial reporting, risk management and internal control issues.

3.2.2 The Audit Committee plays an important role in providing oversight of the Trust's risk management, and internal control practices. This oversight mechanism also serves to provide confidence in the integrity of these practices. The Audit Committee performs its role by providing independent oversight on behalf of the Board of Trustees.

3.2.3 Main responsibilities:

- to provide a structured, systematic oversight of the Trust's risk management, and internal control practices
- oversee the financial reporting process
- review the effectiveness of:
  - the Trust's risk management, including business risk and operational risk
  - the Trust's internal control systems
  - the risk and assurance function and other assurance providers
  - the external audit process
- oversee the Trust's whistle-blowing arrangements

3.2.4 Main tasks:

#### Annual Report and Accounts

- oversee the process implemented by management to produce the Annual Report and Accounts, supported by reports prepared by management, the internal and external auditors and, if appropriate, other external experts
- review the integrity of the Annual Accounts, including consideration of whether they provide a true and fair view of the Trust's affairs, meet legal requirements, comply with the Statement of Recommended Practice (SORP), and take account of best practice

- consider the balance, transparency and integrity of published financial information to ensure they are fair, balanced and understandable, and provide the information necessary for stakeholders to assess performance
- review the key accounting policies and review the management's judgements and estimates on significant financial reporting, and judgements about the treatment of unusual items, ensuring that these are appropriate
- recommend the appointment and assess the performance of the external auditor, and monitor the provision of non-audit services by the external auditor

#### Risk management and internal control

- review the effectiveness of the Trust's risk management process, including identification of and quarterly reporting on business risks and operational risks
  - review and monitor the Trust's application of internal controls and risk management systems that identify, assess, manage and monitor risks within the risk tolerance confirmed by the Board of Trustees. At least annually carry out a review of their effectiveness
  - maintain oversight and recommend to the Board of Trustees future risk strategies of the Trust whilst also updating the Board of Trustees on current risk exposures
  - challenge and monitor the Trust's agreed risk tolerance levels, assessing reasons for deviation. Where necessary and at least annually confirm Board understanding of and agreement with stated risk tolerance levels and any deviation from these
  - review the statements to be included in the Audit Committee Annual Report to Trustees, concerning risk management, operational risk and internal controls

#### Compliance

- review the effectiveness of the system for monitoring compliance with laws and regulations and the results of management's investigation and follow-up (including disciplinary action) of any instances of non-compliance
- review the observations and conclusions of internal and external auditors and the findings of any regulatory agencies relevant to the Trust.
- obtain regular updates from management and the Trust's legal team regarding compliance matters

#### Internal audit

- review the regular reports prepared by the internal audit function in the context of the overall risk management and internal control framework

- review and approve the annual internal audit plan and Strategy (three-year assurance programme) review whether the internal audit function has adequate resources and appropriate access to information to enable it to perform its function effectively and in accordance with the relevant professional standards
- review management's responsiveness to the findings and recommendations of internal audit
- meet the Head of Risk and Assurance and/or Deputy Head of Risk and Assurance at least twice a year without senior management being present to discuss their remit and any issues arising from internal audit work. In addition the Head of Risk and Assurance and Deputy Head of Risk and Assurance should have direct access to the Chair of the Committee at any time
- consider the effectiveness of the internal audit function through the use of internal and external periodic reviews
- review the appropriateness of the Internal Audit Charter and decide any changes to it
- in consultation with the Director-General, and following the advice of the Senior Management Remuneration Committee, the Audit Committee is responsible for the appointment, removal and remuneration of the Head of Risk and Assurance

#### External Audit

- consider and make recommendations to the Board of Trustees, to be put to members for approval at the AGM, in relation to the appointment, reappointment and removal of the external auditors
- oversee the selection process for new external auditors
- oversee the relationship with the external auditor including approval of their terms of engagement (including a policy on the supply of non-audit services) and remuneration
- review and monitor the external auditor's effectiveness and compliance with relevant professional and regulatory requirements
- review and approve the annual external audit plan
- review the findings of the external auditors and discuss any major issues which arise, any accounting and audit judgements and levels of error identified
- review the management's letter of representation to the Board and make a recommendation on the Board signing the equivalent letter of representation from the Board to the external auditors

- meet the external auditor at least once a year in the absence of management to discuss their remit and any issues arising from the audit and the management's response to the auditors' findings and recommendations
- review the external auditor's independence and objectivity

#### Whistle-blowing, fraud and bribery

- review the arrangements for employees and volunteers to raise concerns in confidence, and consider whether the arrangements allow proportionate and independent investigation of possible wrongdoing and appropriate follow-up action
- review the systems and controls for the detection of fraud and the prevention of bribery, receiving appropriate reports from management
- challenge management, internal and external auditors to ensure that the Trust has appropriate anti-fraud programmes and controls in place to identify potential fraud and ensure that investigations and appropriate actions are undertaken if fraud is detected

#### Reporting

- make available to the Board of Trustees the minutes of Audit Committee meetings
- the Chair of the Committee to bring important issues to the Board of Trustees' attention, including recommendations for appropriate action to be taken
- prepare any reports required or requested by the Board of Trustees
- prepare an Audit Committee Annual Report to the Board of Trustees setting out its activities for the year, including its review of risk management, operational risk and internal controls, and recommending that the Annual Report is, in its opinion, suitable for adoption by the Trustees

#### Evaluating performance

- evaluate the committee's own performance on a regular basis and provide for ongoing induction, training and support needs
- The Audit Committee Chair should ensure that new Audit Committee members receive an appropriate induction covering knowledge of the Trust plus the role of the Committee

#### Reviewing its role and responsibilities

- periodically review the Audit Committee role and responsibilities and discuss any required changes with the Board of Trustees

### **3.3 Membership of the Audit Committee**

3.3.1 The presence of suitably qualified members on the Audit Committee is a critical factor in an audit committee's performance. The Committee should be large enough to represent a balance of views and experience, yet small enough to operate efficiently. The Committee will be made up of at least three members of the Board of Trustees, and two other members, at least one of whom will be an external member. The quorum necessary for the transaction of business is three members, including at least one member of the Board of Trustees.

The Chair of the Trust will not sit on the Committee.

3.3.2 The number of years that members serve on the Audit Committee varies. A common term is initially three years, generally with reappointment for a second term, but longer terms are also possible. The Board of Trustees will review succession-planning for membership of committees of the Board and in doing so weigh the following considerations: the appropriate mix of skills and experience and the balance between continuity and freshness.

3.3.3 The Board of Trustees is responsible for appointing the Trustee and non-Trustee members of the Committee.

3.3.4 The core qualities and experience required for membership of the Committee are listed in Appendix D to the Handbook, and may be modified in particular cases if the Board of Trustees considers that appropriate. At least one member of the Committee shall have recent and relevant financial experience. The Committee as a whole shall have competence relevant to the sector and aims of the Trust.

3.3.5 The role of the Chair of the Committee is to act as the focal point for the Committee's relations with the Board of Trustees, senior staff and the internal and external auditors. The Board of Trustees will appoint as Chair one of its members with strong and effective leadership qualities, and the ability to promote effective working relationships among committee members and with others such as management and external and internal auditors.

3.3.6 The Chair of the Committee will attend the AGM and be prepared to respond to any questions raised by members on matters within the Committee's area of responsibility.

3.3.7 In addition to the members of the Audit Committee other participants or attendees at the meetings of the Audit Committee will include the:

- Head of Risk & Assurance, and the Head of Operational Risk, and the Deputy Head of Risk and Assurance as required

- Audit Partner from the external auditors
- Chief Financial Officer
- Representatives of the Trust's Legal Team
- Director-General and other senior staff as required

### **3.4 Meetings**

- 3.4.1 The Committee will meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.
- 3.4.2 Decisions will normally be taken on the basis of consensus, and otherwise on the basis of a simple majority of members present and voting at a duly convened meeting. The Chair may cast a second or casting vote only if there is a tied vote.
- 3.4.3 Using its power under clause 43 the Board of Trustees has established a Code of Conduct and Procedures for Meetings which apply to itself and to the Council and other governance bodies. These are set out in Appendices A and B.