Audit and Assurance Committee Terms of Reference

Role of the Audit, Risk and Assurance Committee

The Audit and Assurance Committee (AAC) supports the Chief Executive by providing advice and constructive challenge, in particular providing support in relation to their responsibilities for issues of risk management, control, governance and associated assurance to support year-end accountability and reporting. The AAC is supported by the Finance and Business Support Function.

Membership and Attendees

The membership of the AAC comprises the three Non-Executives. The Chief Executive and Head of Finance and Business Services routinely attend the AAC, along with representatives from Internal Audit and Audit Scotland. The AAC can also sit privately without Executives, or any other party present for all or part of a meeting if required.

Other members of the Senior Executive Team, may attend AAC meetings, but are not members of the Committee. Attendance should normally be dictated by the subject matters under consideration and review.

Conflict of Interest Declarations will be required from members prior to appointment and at the start of all formal business thereafter.

Meetings

The Committee will meet up to a minimum of three times per year and be chaired by a Non-Executive Director.

A quorum shall consist of 2 AAC members, one of whom must be the appointed Chair or nominated deputy. A deputy can be agreed by the Non-Executive members in attendance and approved by the Accountable Officer.

Papers for Committee meetings will be circulated to members one calendar week prior to the meeting date.

All AAC meetings will be minuted, and the agreed minute will be published on the SF website

The Audit Committee may ask any or all of those who normally attend but are not members, to withdraw to facilitate frank and open discussions on any particular matter.

The Strategic Advisory Group or Accountable Officer may ask the AAC to convene further meetings out with the regular cycle.

The Head of Internal Audit and representative of external audit will have free and confidential access to the Chair.

Access

It is expected that the AAC Chair will meet on a regular basis with the Accountable Officer and Head of Finance and Business Support.

If the Committee judges it necessary, the Chair should have the opportunity to make an oral report to the Strategic Advisory Group and to submit a report to the DG Economy Assurance Committee.

Reporting

The CEO will provide regular (after each meeting), update reports to the SF Advisory Group.

The CEO will provide the Strategic Advisory Group with an Annual Report, summarising their observations and conclusions from the totality of the work undertaken by the AAC during the period. The report will be timed to support the compilation and finalisation of the SF Annual Report and Accounts and the associated Corporate Governance Statement. This report should be copied to the members of the Strategic Advisory Group.

Responsibilities

The AAC will advise the Strategic Advisory Group and the Accountable Officer with reference to the Assurance Framework on the:

* Strategic processes for risk, control and governance and the governance statement;
* Accounting policies, the accounts, and the annual report of the agency, including the process for review of the accounts before submission for audit, levels of error identified, and management's letter of representation to the external auditors;
* Planned activity and results of both internal and external audit;
* The adequacy of management response to issues identified by audit activity, including external audit's management letter/report;
* The effectiveness of the internal control environment;
* Assurances relating to the corporate governance requirements for the agency;
* Proposals for tendering for either internal or external audit services or for purchase of non-audit services from contractors who provide audit services;
* Adequacy of Assurance Framework;
* The requirement and flexibility to oversee high risk projects; and
* Anti-fraud policies, whistle-blowing processes and arrangements for special investigations.

Information Requirements

The AAC will be provided with:

* + Minutes of the previous meeting (at every meeting).

* + A report summarising any significant changes to the organisation's Corporate Risk Register and progress in managing major risks; (at every meeting).

* + At certain pre-determined meetings, a report from the SG Head of Audit and Assurance summarising the work performed, key issues emerging from internal audit work, management response to audit recommendations, any resource issues affecting the delivery of internal audit objectives and any major changes to the agreed Annual Audit Plan (once yearly).

* + A progress report on the Action Log (at every meeting).
  + A progress report from internal audit, summarising reviews undertaken and recommendations.

* + A progress report from the external audit representative, summarising work done and emerging findings.

* + An annual update on Fraud.

* + An in-depth report on the plans for managing one of the key current risks (at every meeting).

* + A report on recent developments in financial management.

As and when appropriate, the Committee will also be provided with but not limited to:

* + The Terms of Reference for Audit, and Assurance.

* + The Internal Audit Strategy.

* + The draft Annual Audit and Assurance Plan.

* + The Head of Audit and Assurance Annual Opinion and Report.

* + The draft accounts of the organisation.

* + Reports on Executive Directors' Statements of Assurance.

* + Reports from external audit.

* + The draft Governance Statement.

* + Reports on any changes to accounting policies.

* + Relevant reports on fraud or attempted fraud within the organisation.

* + Annual Report on losses and special payments.

* + Annual Reports on investigation into gross misconduct.

* + Chair of AAC - Draft Annual Report

* + Annual Report on SF Performance Management.

* + Annual Report on SF Communications Strategy.

* + Reports from management on responses to audit recommendations.

* + Reports on quality assurance of the Internal Audit function.

* + Reports on cooperation between Internal and external audit.

**Communicatio**ns

SF should take steps to ensure that Committee members can keep up to date with developments in the Agency’s work and deepen their understanding of the context in which it is operating.

Committee Effectiveness

Annually, the Chair will arrange for members to assess their individual and collective performance and report to the Accountable Officer.

Review

The Terms of Reference of the AAC will be reviewed annually.

APPENDIX A

SUGGESTED CORE ANNUAL PROGRAMME OF BUSINESS FOR AAC

1. Autumn Meeting (November/December)

* Report on Interim Statements of Assurance
* "In-Depth " Review of One Corporate Risk
* SF Annual Assurance Update and plan for coming year
* Review of SF Budgetary Control Process for Coming Financial Year
* Update on External Audit Approach and Annual Audit Plan
* Review Progress and Performance of Risk Management

Spring Meeting (March)

* Assurance Plan and Head of Audit Opinion to Accountable Officer
* Report on Executive Directors' Statements of Assurance
* Annual Review of SF Performance Management Systems
* Annual Review of SF Governance
* Review of Governance Statement
* Annual Report on Losses and Special Payments
* Review Progress and Performance Relating to Risk Management
* "In-Depth" Review of One Corporate Risk

Summer Meeting (July)

* Draft Annual Report and Accounts
* External Audit draft Annual Report
* Annual Report Fraud Response Group
* AAC Chair's Annual Report
* Annual Report on Information Security
* Review of Current Communications Strategy and Future Plans
* Review of Performance of External Auditors
* Annual report from Head of Finance and Business Support
* Annual Review of AAC Effectiveness
* Annual Review of AAC Terms of Reference
* Annual Review of Skills Required by AAC Members
* Review of Future Strategic Direction of AAC

APPENDIX B

KEY LINES OF ENQUIRY FOR THE AAC

1. This list of questions is not intended to be exhaustive or restrictive but is intended as a prompt to help the AAC ensure their work is comprehensive:

On the strategic process for risk, control and governance, how do we know:

* That the risk management culture is appropriate?

* That there is a comprehensive process for identifying and evaluating risk and for deciding what levels of risk are tolerable?

* That the Corporate Risk Register reflects the risks facing the organisation?

* That appropriate ownership of risk is in place?

* That management has an appropriate view of how effective internal control is?

* That risk management is carried out in a way that really benefits the business?

* That the business as a whole, and parts thereof, are aware of the importance of risk management and of the organisation's risk priorities?

* That the system of internal control will provide indicators of things going wrong?

* That the annual Governance Statement and Statements of Assurance is/are meaningful and what is the underpinning evidence?

* That the Governance Statement/Statements of Assurance appropriately disclose(s) action to deal with material problems?

On risk management processes, how do we know:

* How Executive Directors and senior management support and promote risk management?

* How well members of staff are equipped and supported to manage risk well?

* That there is a clear risk strategy and policies?

* That there are effective arrangements for managing risks with partners?

* That SF processes incorporate effective risk management?

* If risks are handled well?

* If risk management contributes to achieving outcomes?

On the planned activity and results of both internal and external audit, how do we know:

* That the periodic Audit and Assurance work plan will achieve the objectives of the Internal Audit Strategy and in particular, is it adequate to facilitate a positive, reasonable assurance.

* The Internal Audit strategy is appropriate for delivery of a positive, reasonable assurance on the whole of risk, control and governance.

* That Audit and Assurance has appropriate resources, including skills, to deliver its objectives?

* That Audit and Assurance recommendations agreed by management are actually implemented?

* That any issues arising from line management not accepting Audit and Assurance recommendations are appropriately escalated for consideration?

* That the quality of Internal Audit work is adequate?

* That there is appropriate co-operation between Audit and Assurance and the External Auditor.

On the accounting policies and the Annual Report and Accounts of SF, how do we know:

* That there is an appropriate anti-fraud policy in place and losses are suitably recorded?

* That suitable processes are in place to ensure accurate financial records are in place?

* That suitable processes are in place to ensure fraud is guarded against and regularity and propriety is achieved?

* That financial control, including the structure of delegations, enables the organisation to achieve its objectives with good value for money?

* If there are any issues likely to lead to qualification of the accounts?

* That issues raised by the external auditor / the Auditor General for Scotland are given appropriate attention?

* The accounting policies adopted are compliant with relevant requirements (FReM)?

* Proper procedures are in place to provide assurance due process is followed in preparation of the annual accounts, review of accounts and annual report?

* How the treatment of new or novel accounting issues have been handled?

* Appropriate action is taken if the accounts have been qualified?

On the adequacy of management response to issues identified by audit activity, how do we know:

* That the implementation of recommendations is monitored and followed up?

* That there are suitable resolution procedures in place for cases when management reject audit recommendations which the Auditor stands by as being important?

On assurances relating to the corporate governance requirements for the organisation, how do we know:

* That the range of assurances available is sufficient to facilitate the drafting of a meaningful Governance Statement?

* The Governance Statement realistically reflects the assurances on which it is premised.

* That those producing the assurance understand fully the scope of the assurance they are being asked to provide and the purpose to which it will be put?

* What mechanisms are in place to ensure that assurances are reliable?

* That assurances are "positively" stated (i.e. premised on sufficient relevant evidence to support them)?

* That the assurances draw appropriate attention to material weaknesses or losses which should be addressed?

On the work of the AAC itself, how do we know:

* That we are being effective in achieving our Terms of Reference and adding value to corporate governance and control systems of the organisation?

* That we have the appropriate skills mix?

* That we have an appropriate level of understanding of the purpose and work of the organisation?

* That we have sufficient time to give proper consideration to our business?

* That our individual members are avoiding any conflicts of interest?

* What impact are we having on the organisation as a whole?