

Audit and Assurance Committee Handbook

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Foreword

An effective Audit and Assurance Committee* is essential to a strong corporate governance culture within public and private sector organisations.

The role is a challenging one and needs strong, independent members with an appropriate range of skills and experience. It will benefit from a strong collaborative relationship with the organisation to ensure that the committee gets the support and information that it needs. The committee will also need to act as the conscience of the organisation. This means providing insight and strong constructive challenge where required, such as on risks arising from fiscal and resource constraints, cyber-attack and transformation programmes. It also means challenging the agility of the organisation to respond to emerging risks.

This revision of the Handbook** sets out the fundamental principles with explanatory good practice notes, relating to the role, membership and work of Audit and Assurance Committees in those organisations to which the Scottish Public Finance Manual is directly applicable. This includes the core Scottish Government and bodies sponsored by the Scottish Government such as Executive Agencies, Non Ministerial Departments, Non Departmental Public Bodies and Other Significant Bodies.

The Handbook emphasises the sources of assurance available to Audit and Assurance Committees in addition to internal and external audit. We encourage all organisations within the Scottish Government family to define their assurance needs, map their various sources of assurance and develop an integrated approach to assurance which will secure best value for the public purse and embed best practice principles within their organisation.

A degree of flexibility, pragmatism and proportionality will be needed in applying the guidance in this Handbook to individual organisations. For example, the use of the term “Board” referred to in chapter 4 should be interpreted in the context of the “On Board” Guidance (March 2017), which defines the differences between Statutory and Management Advisory Boards. Subject to these caveats, any significant non-compliance with the principles in this Handbook should be explained and reported in the annual Governance Statement.

We commend this Handbook to you.

Leslie Evans

Alyson Stafford

Permanent Secretary

Director General Scottish Exchequer

* Alternatively referred to as the Audit Committee / Audit and Risk Committee / Audit and Risk Assurance Committee. For the purposes of this Handbook-the term Audit and Assurance Committee will be used in a generic context.

**The *Scottish Government Audit and Assurance Committee Handbook* draws on, and is consistent with, generally accepted principles concerning corporate governance and the role of audit and assurance committees. Relevant source publications include:

- HM Treasury: Audit and Risk Assurance Committee Handbook (March 2016)
- HM Treasury: Corporate Governance in Central Government Departments: Code of Good Practice (July 2011)
- OPM and CIPFA: Good Governance Standard for Public Services (2005)
- Financial Reporting Council: The UK Corporate Governance Code (April 2016)
- Scottish Public Finance Manual
- On Board: A Guide for Members of Statutory Boards in Scotland (March 2017)
- On Board: A Guide for Members of Management Advisory Boards (March 2017)

Glossary of Terms

AO	Accountable Officer
CoA	Certificates of Assurance
DG	Director General
IAD	Internal Audit Directorate
NDPB	Non Departmental Public Body
NMD	Non Ministerial Department
NXD	Non-Executive Director
OCIO	Office of the Chief Information Officer
PSIAS	Public Sector Internal Audit Standards
SG	Scottish Government
SGAAC	Scottish Government Audit and Assurance Committee
SPCD	Scottish Procurement and Commercial Directorate
3LA	Three Lines of Assurance

Chapter 1: Good Practice Principles for Audit and Assurance Committees

Principle 1: Membership, independence, objectivity and understanding

The committee should be independent and objective; in addition, each member should have a good understanding of the objectives and priorities of the organisation and of their role as a committee member.

Principle 2: Skills

The committee should corporately own an appropriate skills mix to allow it to carry out its overall function.

Principle 3: Role and Scope

The committee should support the Accountable Officer and Board by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report.

The scope of the committee's work should be defined in its terms of reference and should encompass all the assurance needs of the Accountable Officer and Board. Within this, the committee should have particular engagement with the work of Internal Audit, risk management, the External Auditor, and financial management and reporting issues.

Principle 4: Communication and Reporting

The committee should ensure that it has effective communication with all key stakeholders, for example, the Board, the Head of Internal Audit, the External Auditor and other relevant assurance providers e.g. Risk Manager. In addition, the role of the Chair and provision of appropriate secretariat support are important elements in achieving committee effectiveness. Good practice guidance on these roles is provided, respectively, in [Annex A](#) and [Annex B](#).

Chapter 2: Membership, Independence, Objectivity and Understanding

Independence

2.1 An effective Audit and Assurance Committee must have members who are both independent and objective. The Accountable Officer and Board should be supported by an Audit and Assurance Committee with no executive responsibilities, comprising of at least three members. The Chair should be a Non-Executive Member (NEBM) [sometimes called a Non-Executive Director (NXD)] with relevant experience. There should be at least one other NEBM/NXD on the committee; when there are insufficient NEBMs/NXDs to form the committee, independent external members will need to be appointed. The committee may also need to seek further independent, non-executive membership from sources other than the Board in order to ensure an appropriate level of skills and experience. These members are appointed to the Audit and Assurance Committee but not to the Board and the independence of the committee from an executive function should be its guiding ethos. In order to operate in an independent and competent manner, the committee should possess the requisite knowledge and skills to effectively engage with and challenge the organisation (see Chapter 4: Role and Scope).

Relationship with the Executive of the organisation

2.2 Executive members of the organisation should not be appointed to the Audit and Assurance Committee. The role of the executive managers is to attend, to provide information, and to participate in discussions, either for the whole duration of a meeting or for particular items.

2.3 The Accountable Officer and the Finance Director should routinely attend the Audit and Assurance Committee. It is also normal for the Head of Internal Audit and a representative of the External Auditor to attend. However, the strategic internal audit terms of reference, which forms the basis of the relationship between the body and internal audit, should also provide for the Audit and Assurance Committee to sit

privately without any non-members present for all or part of a meeting if they so wish.

2.4 It is also good practice for the Chair of the Audit and Assurance Committee to meet the Accountable Officer, the Finance Director, the Head of Internal Audit and the External Auditor's senior representative outside of the formal committee structure (see Chapter 5: Communication and Reporting).

Other participants

2.5 It is also common for representatives of sponsoring or sponsored bodies to attend Audit and Assurance Committee meetings (for example, a member of the core Scottish Government may attend the Audit and Assurance Committee of one of its Executive Agencies or bodies). However, such representatives should not be appointed as members of the committee.

Conflicts of interest

2.6 Normally the process for recording declarations of conflicts of interests in the Audit and Assurance Committee should mirror the processes used at Board level. Each member of the committee should take personal responsibility to declare proactively any potential conflict of interest arising out of business on the committee's agenda or from changes in the member's personal circumstances. The Chair should then determine an appropriate course of action with the member. For example, the member might simply be asked to leave while a particular item of business is taken; or in more extreme cases the member could be asked to leave the committee. If it is the Chair who has a conflict of interest, the Board or Accountable Officer should ask another member of the committee to lead in determining the appropriate course of action. A key factor in determining the course of action will be the likely duration of the conflict of interest: a conflict likely to endure for a long time is more likely to suggest that the member should leave.

Terms of appointment

2.7 All members of the Audit and Assurance Committee should have a clear understanding of:

- what is expected of them in their role, including time commitments;
- how their individual performance will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance and the criteria which would indicate the termination of Audit and Assurance Committee membership should be considered;
- the duration of their appointment and how often it may be renewed; and
- training required and how this will be provided.

2.8 The terms of appointment of an Audit and Assurance Committee member should be clearly set out at the time of appointment. A model letter of appointment is set out at [Annex C](#). The letter should also specify what other activities the individual may or may not undertake in relation to the organisation. The impact on independence of any remuneration from other activities should be given careful consideration.

Chapter 3: Skills

The committee should corporately own an appropriate skills mix to allow it to carry out its overall function.

Range of skills

3.1 The committee is charged with ensuring that the Board and Accountable Officer of the organisation gain the assurance they need on risk management, governance and internal control. So, it needs a range of skills and experience relevant to various aspects of risk, governance and control. A competency framework for an Audit and Assurance Committee is at [Annex G](#).

3.2 Because of the importance of financial management and financial reporting to every organisation, at least one member of the committee should have recent and relevant financial experience. This experience should be sufficient to allow them to engage competently with financial management and reporting in the organisation, and associated assurances.

3.3 The committee should identify, and agree with the Board and Accountable Officer, the other skills required for committee effectiveness. These identified skills should inform the choice of members of the committee. The required skills set should be periodically reviewed.

3.4 Although Audit and Assurance Committee members are recruited for their individual skills, it is vital that they are able to work collaboratively.

Additional skills

3.5 The committee should be empowered to either:

- co-opt members for a period of time (not exceeding a year, and with the approval of the Board and/or Accountable Officer) to provide specialist skills, knowledge and experience that the committee needs at a particular time; (Co-opted members may be remunerated at an appropriate rate for the time and effort they are expected to contribute); or

- procure specialist advice at the expense of the organisation on an ad-hoc basis in order to support in relation to particular committee business. Budgets for such procurement should be approved by the Board and/or Accountable Officer.

Training and development

3.6 All committee members, whatever their status or background, will have training and development needs. Those who have recently joined the Audit and Assurance Committee will need induction training, either to help them understand their role; or if they have Audit and Assurance Committee experience elsewhere, to help them understand the organisation. In particular, those joining a public sector Audit and Assurance Committee for the first time will need training to help them understand public sector standards, especially those relating to governance and accountability and internal audit (PSIAS).

3.7 The Chair should, in addition, ensure that all committee members have an appropriate programme of engagement with the organisation and its activities to help them understand the organisation, its objectives, business needs, priorities and risk profile. Consideration should be given to underpinning such programmes with training and/or learning plans.

Chapter 4: Role and Scope

Supporting the Board and Accountable Officer

4.1 Accountable Officers and Boards have many issues competing for their attention. One of the challenges they face is knowing whether they are giving their attention to the right issues. Key to addressing this is assurance, defined as: “an evaluated opinion, based on evidence gained from review, on the organisation’s governance, risk management and internal control framework”

4.2 Assurance draws attention to the aspects of risk management, governance and control that are functioning effectively and, just as importantly, the aspects which need to be given attention to improve them. An effective risk management framework and a risk-based approach to assurance helps an Accountable Officer and Board to judge whether or not its agenda is focussing on the issues that are most significant to achieving the organisation’s objectives and whether best use of resources is being made. The Audit and Assurance Committee can help the Accountable Officer and Board to formulate their assurance needs, and then consider how well assurance received actually meets these needs by gauging the extent to which assurance on risk management is comprehensive and reliable. Assurance cannot be absolute so the committee will need to know that the organisation is making effective use of the finite assurance mechanisms at its disposal, targeting areas of greatest risk. This can include carrying out a ‘Deep Dive’ exercise of risks that the committee determine are key threats to the organisation.

4.3 Formulation of the specific assurance need is key to determining the resource that needs to be dedicated to delivery of assurance in the organisation. Key elements include:

- the strategic outcomes and objectives which the organisation is charged to deliver, and the associated risks and control mechanisms;
- the sources of assurance available; and
- the level of confidence required in assurances, including the extent to which the range of assurance providers can be relied on by Internal Audit in

delivering its overall opinion on risk, control and governance in accordance with the Public Sector Internal Audit Standards.

4.4 A well designed assurance framework will help. At its simplest, this will identify all the key sources of assurance in the organisation and seeks to orchestrate them to best effect. This can help to ensure that gaps are reduced or eliminated and unnecessary duplication avoided. A conceptual model that is often used to help to categorise the various sources of assurance is the ‘three lines of assurance’. By defining the sources of assurance in three broad categories, it helps to understand how the type and nature of the mechanisms can contribute to the bigger assurance picture:

- First line: management assurance from “front line” or business operational areas;
- Second line: oversight of management activity, including effective management information, separate from those responsible for delivery, but not independent of the organisation’s management chain; and
- Third line: independent and more objective assurance, including the role of Internal Audit and from external bodies (e.g. accreditation and Gateway reviews). Further detail of the role of Internal Audit is provided later in this chapter.

4.5 An understanding of the three lines of assurance can help the Audit and Assurance Committee to play a key role in helping the Accountable Officer and Board establish an optimum mix of assurance. For example, management and oversight assurance activities can be harnessed to provide coverage of routine operations, with Internal Audit activity more effectively targeted at riskier or more complex areas. As well as strengthening assurance arrangements, this helps the Audit and Assurance Committee to demonstrate added value to the organisation. Advice on developing assurance frameworks is available in the Treasury Assurance Framework Guidance document.

4.6 The overall provision of assurances to the Accountable Officer and Board should be reviewed by the Audit and Assurance Committee, which should constructively challenge:

- whether the nature and scope of the assurance providers' activity meets the Accountable Officer's and Board's assurance needs;
- the credibility and independence of each provider; and
- where appropriate, the actual assurances to test that sufficient reliable evidence and that conclusions are reasonable in the context of the evidence.

The committee should also be proactive in commissioning assurance work from appropriate sources if it identifies any significant risk, governance and control issues which are not being subjected to sufficient review, and in seeking assurance on weaknesses identified by reviews are actually remedied by management.

A "prompt" list of questions for Audit and Risk Assurance Committees to ask is provided at [Annex F](#).

4.7 The overall committee view may draw attention to areas where:

- risk is being appropriately managed (no action needed);
- risk is inadequately controlled (action needed to improve control);
- risk is over controlled (resource being wasted which could be diverted to other use); and/or
- there is lack of evidence to support a conclusion. If this concerns areas material to the organisation's operations more assurance work may be needed, subject to an assessment of costs and benefits.

4.8 Assurance should be obtained on risks across the organisation. The governance structure of the departmental family/group will therefore need to ensure that there is effective communication on risks and control to ensure appropriate visibility of and timely action on such matters as well as to feed into the annual Governance Statement.

4.9 Similarly assurance on the risk and control environment should also encompass services outsourced to external providers, including shared service arrangements, so that all key elements of the organisation are considered as parts of the wider organisation and business function.

4.10 It is also good practice to have reasonable oversight of risks that cross organisational boundaries, for example, in major projects. This could include a Chairs of Audit and Assurance Committee Forum. Any such forum should focus on assurances on cross organisational governance, risk and control arrangements.

Internal and external audit

4.11 For any government organisation there will always be two significant sources of independent and objective assurance: Internal Audit and External Audit.

4.12 The work of Internal Audit is carried out primarily for the benefit of the Accountable Officer and Board/Executive of the organisation and is likely to be the single most significant resource used by the committee in discharging its responsibilities. This is because the Head of Internal Audit, in accordance with the Public Sector Internal Audit Standards, has a responsibility to provide an annual opinion on the overall adequacy and effectiveness of the organisation's governance, risk management and control processes. There is consequently a major synergy between the purpose of the Head of Internal Audit and the role of the Audit and Assurance Committee.

4.13 In central government, the Auditor General is responsible for securing the external audit of most public sector bodies in Scotland and reporting on their financial health and performance. Audit work is carried out by Audit Scotland staff and appointed auditors including private firms. This includes the audits of financial statements as well as performance and Best Value audits. All external auditors appointed by the Auditor General are required to follow the Code of Audit Practice which outlines their responsibilities. Once appointed, auditors act independently in carrying out their responsibilities and in exercising professional judgement.

4.14 The role of the Audit and Assurance Committee in relation to Internal Audit should include advising the Accounting Officer and Board on:

- the Internal Audit strategy and periodic Internal Audit plans, forming a view on how well they reflect the organisation's risk exposure and support the Head of Internal Audit's responsibility to provide an annual opinion;
- the adequacy of the resources available to Internal Audit;
- the Internal Audit charter/terms of reference for Internal Audit;
- the results of Internal Audit work, including reports on the effectiveness of systems for governance, risk management and control, and management responses to issues raised;
- the annual Internal Audit opinion and annual report; and
- the performance of Internal Audit, including conformance with the applicable standards, expected performance measures, and the results of both internal and external quality assessments.

4.15 Auditor responsibilities are derived from statute, the Code of Audit Practice, International Standards on Auditing (UK and Ireland) and professional requirements. These include:

- undertaking statutory duties, and complying with professional engagement and ethical standards
- providing an opinion on audited bodies' financial statements and, where appropriate, the regularity of transactions
- reviewing and reporting on, as appropriate, other information such as annual governance statements, management commentaries and remuneration reports
- notifying the Auditor General when circumstances indicate that a statutory report may be required.

4.16 The Code of Audit Practice defines a wider scope for public audit that goes beyond the financial statements. This includes work that contributes to audit judgements and conclusions on the appropriateness, effectiveness and impact of corporate governance, performance management arrangements and financial sustainability. External auditors will report annually to those charged with

governance on the results of their work covering both the financial statements and wider scope audit work. Audited annual financial statements including the independent auditors' reports, and reports by the Auditor General are sent to Scottish ministers to be laid before the Scottish Parliament.

4.17 It is important that the Audit and Assurance Committee engages regularly with external audit. The committee should consider the results of external audit work and the proposed actions against audit recommendations. The committee should also consider planned external audit activity and enquire about the level of coordination and engagement between internal and external audit to ensure there is no unnecessary duplication of audit work.

Governance

4.18 It is essential that the committee understands how governance arrangements support achievement of the organisation's strategies and objectives, especially:

- the organisation's vision and purpose;
- mechanisms to ensure effective organisational accountability, performance and risk management;
- role definitions, committee and other structures to support effective discharge of responsibilities, decision making and reporting;
- promotion of appropriate ethics and values within the organisation;
- communication of management information, including on risk and control among the board and to appropriate areas of the organisation; and
- relations with ALBs including reporting functions to relevant AACs and Scottish Government.

Risk management and the control environment

4.19 It is also essential that the committee:

- understands the organisation's business strategy, operating environment and the associated risks, taking into account all key elements of the organisation as parts of an "Extended Enterprise";
- understands, where applicable, the role and activities of the Board (or equivalent senior governance/advisory body) in relation to managing risk;
- discusses with the Board its policies, attitude to and appetite for risk to ensure these are appropriately defined and communicated so management operates within these parameters;
- understands the framework for risk assessment, management and assurance and the assignment of responsibilities;
- critically challenges and reviews the risk management and assurance framework, without second guessing management, to provide assurance that the arrangements are actively working in the organisations; and
- critically challenges and reviews the adequacy and effectiveness of control processes in responding to risks within the organisation's governance, operations, compliance and information systems.

Financial management and reporting

4.20 The committee should consider significant accounting policies, any changes to them and any significant estimates and judgements, if possible before the start of the financial year. It should also review the clarity and completeness of disclosures in the year-end financial statements and consider whether the disclosures made are set properly in context.

4.21 The committee will not itself be able to review the accounts in detail in order to advise the Accounting Officer whether they are true and fair. Ideally, the committee should expect a comprehensive overview of the financial statements by the Finance Director, including comparisons with the prior year and current year budget, and an

explanation for any issues arising. In reaching a view on the accounts, the committee should consider:

- key accounting policies and disclosures;
- assurances about the financial systems which provide the figures for the accounts;
- the quality of the control arrangements over the preparation of the accounts;
- key judgements made in preparing the accounts;
- any disputes arising between those preparing the accounts and the auditors; and
- reports, advice and findings from external audit (especially the Audit Completion Report – ISA 260 Report).

Terms of reference

4.22 The committee's terms of reference should be agreed by the Accountable Officer/Board and made publicly available (including on the organisation's website). It is important that a balance is struck during meetings between corporate governance, risk management, control and financial reporting items. The terms of reference should be reviewed annually alongside the performance of the committee. Model terms of reference are suggested at [Annex D](#). A suggested self-assessment checklist is provided at [Annex H](#).

4.23 The responsibilities assigned to the committee should not provide any conflict with the guidance in this handbook, in particular by compromising independence. The committee should not have any executive responsibilities or be charged with making or endorsing any decisions, although it may draw attention to strengths and weaknesses in control and make suggestions for how such weaknesses might be dealt with. The overarching purpose of the committee is to advise the Accountable Officer and Board; it is then the Accountable Officer and Board that make the relevant decisions.

4.24 The committee should have appropriate authority to require any member of the organisation to report on the management of risk or on the control environment within their areas of responsibility, in general terms or in respect of specific issues, either by:

- attending a committee meeting; or
- providing written report(s) to the committee to help the committee in fulfilling its role.

4.25 The Accountable Officer and Board need adequate and timely feedback on the work of the committee in order to consider its contributions formally. A schedule of the committee's agreed delegations from the Board, and the mechanisms for feedback and assurance, should be formally documented.

4.26 To fulfil their role, most committees will need to meet at least four times a year. A model "core programme" of work for a Committee meeting four times a year is provided at [Annex E](#).

4.27 The committee will require access to funding to cover the costs incurred in fulfilling its role. The funding should be sufficient to:

- meet any remuneration and working expenses of its members (where applicable);
- meet the relevant training needs of its members;
- provide specialist (external) advice or opinions when required; and
- (as agreed with the organisation) provide external review of the effectiveness of the committee.

Chapter 5: Communication and Reporting

Communication between the Committee and the Board

5.1 The work of the Audit and Assurance Committee needs to be effectively communicated. After each meeting of the committee a report should be prepared for the Accounting Officer and Board to:

- summarise the business taken by the committee, explaining if necessary why that business was regarded as important; and
- offer the views of, and advice from, the committee on issues which they consider the Accounting Officer and Board should take action on.

5.2 If the minutes of the committee meeting are used as the report, care should be taken in their presentation to highlight the advice being provided. These reports should be copied to the Head of Internal Audit and the External Auditor (especially if the report contains advice about or to the auditors).

Improving relationships

5.3 It is important for the committee to have good relationships and communication with those it seeks briefings from, and those it provides assurance to. This ensures that it is effectively engaged with the organisation and able to fulfil its function. This should include where risks cross organisational boundaries, for example, in major projects.

Annual reports

5.4 The committee should provide an Annual Report, timed to support the preparation of the Governance Statement. This internal report needs to be open and honest in presenting the committee's views if it is to be of real benefit to the Accountable Officer and Board. This report is likely to be used by the Accountable Officer and Board in preparing their own report for publication in fulfilment of the reporting requirements of the Scottish Administration.

5.5 The Annual Report should summarise the committee's work for the year past, and present its opinion about:

- the effectiveness of governance, risk management and control;
- the comprehensiveness of assurances in meeting the Accountable Officer's and Board's needs;
- the reliability and integrity of these assurances;
- whether the assurance available is sufficient to support the Accountable Officer and Board in their decision taking and their accountability obligations;
- the implications of these assurances for the overall management of risk;
- any issues the committee considers pertinent to the Governance Statement and any long term issues the committee thinks the Accounting Officer and/or Board should give attention to;
- financial reporting for the year;
- the quality of both Internal and External Audit and their approach to their responsibilities; and
- the committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.

5.6 The Audit and Assurance Committee's report should take into account any other relevant assurance reports.

Bilateral communications

5.7 There should be mutual rights of access between the Chair of the Audit and Assurance Committee, the Accountable Officer, Head of Internal Audit and the External Auditor. Periodic discussions outside of the formal meeting help to ensure that expectations are managed and that there is mutual understanding of current risks and issues.

Annex A: The role of the Chair: good practice

A.1 Role of Chair

The role goes beyond chairing meetings and is key to achieving committee effectiveness. Key activities in addition to committee meetings should include the following.

- Before each meeting the Chair and the Committee Secretary should meet to discuss and agree the business for the meeting. The Chair should take ownership of, and have final say in, the decisions about what business will be pursued at any particular meeting.
- Meeting time should be optimised by making sure that all agenda papers are issued in good time and then having each paper summarised outlining the key points, cross referred to the organisational business and risk agenda and stating what action the committee is required to take.
- The Chair should ensure that after each meeting appropriate reports are prepared from the committee to the Accountable Officer and Board. An annual report to the Accountable Officer and Board should also be provided.
- The Chair should have bilateral meetings at least annually with the Accountable Officer, the Head of Internal Audit and the External Auditor. In addition, the Chair should meet any people newly appointed to these positions as soon as practicable after their appointment.
- The Chair should also ensure that all committee members have an appropriate programme of engagement with the organisation and its activities to help them understand the organisation, its objectives, business needs and priorities.
- The Chair of the Audit and Assurance Committee should establish a mechanism enabling key stakeholders to consider the overall risk and assurance needs (see 5.3).

- Encouraging good, open relationships between the committee, Accountable Officer, Finance Director and Internal and External Auditors. There are a number of ways that a Chair can encourage this.

The profile of the committee can be raised to support and add weight to audit work by:

- promoting audit issues internally with relevant Board members and other directors to make sure they appreciate the value of audit;
- holding managers within the organisation to account for the implementation of audit recommendations; and
- calling appropriate business heads to meetings, for example, to explain how they are delivering their agreed actions on risks for which they are responsible.
- Arranging separate meetings for the Chair, Non-Executives and independent members and Internal and External Auditors to help establish open working relationships;
- Arranging meetings with the Chair, Internal Auditors and the Finance Director etc in the weeks leading up to the committee meeting to discuss areas for the agenda and papers that should be provided;
- Arranging meetings with the Internal Auditors (and possibly External Audit) immediately before the committee meeting to help give focus to discussions; and
- The Chair should ensure that there is an appropriate process between meetings for action points arising from committee business to be appropriately pursued. The Chair should also ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence. Chairs may choose to rely on the Secretariat to take these actions.

A2 Appraisal

The Chair should take the lead in ensuring that committee members are provided with appropriate appraisal of their performance as a committee member and that training needs are identified and addressed. The Chair should seek appraisal of their performance from the Accountable Officer (or Chair of the Board, as appropriate).

The Chair should ensure that there is a periodic review of the overall effectiveness of the committee and of its terms of reference.

A.3 Appointments

The Chair should be involved in the appointment of new committee members, including providing advice on the skills and experience being sought by the committee when a new member is appointed.

The Chair should also be actively involved in the appointment of the Head of Internal Audit.

A.4 Resources

The Chair is responsible for ensuring that the work of the committee is appropriately resourced.

Annex B: Committee support: good practice

B.1 The secretariat should be able to support the Chair in identifying business to be taken, and the relevant priorities of the business. For this reason, and as the Audit and Assurance Committee is a committee of the Board, the Committee's Secretariat function should be supervised by the Board Secretariat. The Chair of the committee and the Secretariat should agree procedures for commissioning briefing to accompany business items on the committee's agenda and timetables for the issue of meeting notices, agendas, and minutes. The Chair of the committee should always review and approve minutes of meetings before they are circulated.

B.2 The specific responsibilities of the Audit and Assurance Committee Secretariat should include:

- meeting with the Chair to prepare agendas for meetings;
- commissioning papers as necessary to support agenda items;
- circulating meeting documents in good time before each meeting;
- arranging for executives to be available as necessary to discuss specific agenda items with the committee during meetings;
- keeping a record of meetings and providing draft minutes for the Chair's approval;
- ensuring action points are being taken forward between meetings;
- support the Chair in the preparation of committee reports to the Accountable Officer and Board;
- arranging the Chair's bilateral meetings with the Accountable Officer, the Head of Internal Audit, the External Auditor, and, in ALBs, with the Chair of the Board etc;
- keeping the Chair and members in touch with developments and relevant background information about developments in the organisation;

- maintaining a record of when members' terms of appointment are due for renewal or termination;
- ensuring that appropriate appointment processes are initiated when required;
- ensuring that new members receive appropriate induction training, and that all members are supported in identifying and participating in ongoing training; and
- managing budgets allocated to the committee.

B.3 When the committee decides to meet privately, the Chair should decide whether the Secretariat members should also withdraw. If so, the Chair should ensure that an adequate note of proceedings is kept to support the committee's conclusions and advice.

Annex C: Model letter of appointment

It is recommended that the following issues be included in the Letter of Appointment of an Audit and Assurance Committee member.

Appointment and purpose

You are hereby appointed as a member of the Audit and Assurance Committee of (*organisation*). As a member of the committee you are accountable to the Board (*or Accountable Officer where appropriate*) through the Chair of the Committee. Your appointment is for (*number*) years from (*date*). This appointment may be renewed (*number*) times (*by mutual agreement*) after the duration of this appointment.

The committee is a committee of the Board of (*organisation*) and its purpose is to:

- review the comprehensiveness of assurances in meeting the assurance needs of the Board and Accountable Officer;
- review the reliability and integrity of these assurances;
- review the integrity of the financial statements; and
- advise the Board and Accountable Officer about how well assurances consequently support them in decision taking and in discharging their accountability obligations.

A copy of the committee's Terms of Reference is enclosed. The committee is chaired by (*name*) and the other members are (*names*). [*It is recommended that new members be provided with a list of contact details.*]

Support and training

The Secretary of the Committee is (*name/contact details*) and he/she will shortly be in touch with you to discuss and arrange appropriate induction training.

To help you understand the governance arrangements and the role of Audit and Assurance Committees in government, you should read the Audit and Assurance Committee Handbook published by the Scottish Government.

Commitment and remuneration

The committee meets at least four times each year, but additional meetings may be required from time to time. You will also be expected to undertake appropriate training and activities designed to keep you in touch with the organisation's activities and priorities. Your remuneration will be (*include details of daily rate and procedures for claims and payment*). All monies paid in connection with this appointment are taxable and it is your responsibility to make appropriate arrangements in respect of income tax.

Expenses and subsistence

Travel and subsistence costs will be paid in accordance with (*the organisation's*) standard arrangements.

A copy of the current rates and conditions is enclosed for your information.

You are entitled to claim the following expenses and subsistence:

- travel expenses to and from home to the meeting venue;
- travel and subsistence expenses incurred as part of the work of the committee away from the normal venue; and
- dependent care costs.

You would be entitled to travel standard class by rail. Any further clarification on (*the organisation's*) arrangements should be sought via the Secretary of the Committee.

As a rule of thumb the aim is to use the most efficient and economic means of travel, taking into account sustainability, subsistence costs and savings in time.

Conflicts of interest

Any potential conflict of interest for you in your committee role, including any arising from a change in personal circumstances during your period of appointment, must be declared to the Chair of the Committee.

Appraisal

As a member of the committee you will be subject to appraisal by the Audit and Assurance Committee Chair (*include brief details of the appraisal process*).

Conduct

You are expected to conduct yourself in accordance with the principles of the *Seven Principles of Public Life* identified by the Committee on Standards in Public Life. A copy of the *Seven Principles of Public Life* is enclosed.

Liability

Under the terms of the *Scottish Public Finance Manual* issued by the Scottish Ministers, individual non-executive board members of public bodies and independent external members of board committees who have acted honestly and in good faith do not have to meet out of their own personal resources any personal civil liability which is incurred in the execution or purported execution of their board or committee functions, save where the person has acted recklessly.

Termination

If you choose to resign from this appointment you will be expected to give (*number*) months' notice, unless your circumstances have changed in a way that make it appropriate for you to resign immediately. If your performance as a committee member is decided to be unacceptable (see appraisal) or if your conduct (including conflicts of interests) is unacceptable your appointment may be terminated by the Board/Accountable Officer (*delete as appropriate*).

Annex D: Model terms of reference

The Board (and/or Accountable Officer - *delete as appropriate*) has established an Audit and Assurance Committee as a Committee of the Board to support in their responsibilities for issues of risk, control and governance and associated assurance through a process of constructive challenge.

Membership

The members of the committee are:

- non-executive directors: (List those who are appointed to the committee);
- independent external members: (List those who are appointed to the Audit and Assurance Committee; in all cases indicate the date of appointment and when the appointment is due to end/become eligible for renewal).

The committee will be Chaired by

The committee will be provided with a secretariat function by

Reporting

- The committee will formally report in writing to the Board and Accountable Officer after each meeting. A copy of minutes of the meeting may form the basis of the report.
- The committee will provide the Board and Accountable Officer with an Annual Report, timed to support finalisation of the accounts and the governance statement, summarising its conclusions from the work it has done during the year.

Responsibilities

The committee will advise the Board and Accountable Officer on:

- the strategic processes for risk, control and governance and the governance statement;

- 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;
- 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 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; and
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

The Audit and Assurance Committee will also periodically review its own effectiveness and report the results of that review to the Board and Accountable Officer.

Rights

The committee may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience; and
- procure specialist ad-hoc advice at the expense of the organisation, subject to budgets agreed by the Board or Accountable Officer.

Access

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

Meetings

The procedures for meetings are:

- the committee will meet at least four times a year. The Chair of the Committee may convene additional meetings, as he/she deems necessary;
- a minimum of (*number*) members of the committee will be present for the meeting to be deemed quorate;
- committee meetings will normally be attended by the Accountable Officer, the Finance Director, the Head of Internal Audit, and a representative of External Audit (*add any others who may routinely attend such as representatives of sponsoring/sponsored bodies*);
- the committee may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter;
- the committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters;
- the Board or Accountable Officer may ask the committee to convene further meetings to discuss particular issues on which they want the committee's advice.

Information requirements

For each meeting the committee will be provided with:

- a report summarising any significant changes to the organisation's Risk Register;
- a progress report from the Head of Internal Audit summarising:
 - work performed (and a comparison with work planned);
 - key issues emerging from Internal Audit work;
 - management response to audit recommendations;
 - significant changes to the audit plan;
 - any resourcing issues affecting the delivery of Internal Audit objectives;
- a progress report from the External Audit representative summarising work done and emerging findings.

As and when appropriate, the committee will also be provided with:

- business update reports from the Accountable Officer;
- the Charter / Terms of Reference of the Internal Audit Directorate;
- the Internal Audit Strategy;
- the annual Internal Audit Plan
- the Head of Internal Audit's Annual Opinion and Report;
- quality assurance reports on the Internal Audit function;
- the draft accounts of the organisation;
- the draft governance statement;
- a report on any changes to accounting policies;
- External Audit's management letter/report;
- a report on any proposals to tender for audit functions;
- a report on co-operation between Internal and External Audit;
- a report on the Counter Fraud and Bribery arrangements and performance;
- reports from other sources within the “three lines of assurance” integrated assurance framework (eg Best Value self-assessment Reviews, Gateway Reviews, Health Check Reviews, ICT Assurance Reviews, Digital 1st Service Standard Reviews, Procurement Capability Reviews, Procurement Key Stage Reviews).

The above list suggests minimum requirements for the inputs which should be provided to the committee. In some cases more may be provided.

Annex E: Example Annual Core Work Programme

Spring Meeting

- Review performance relating to risk management
- Review the Internal Audit charter / terms of reference, strategy and the periodic work plan for the coming financial year
- Consider External Audit plans for the coming financial year
- Consider any reports from Internal Audit and management responses
- Consider financial reports, including relevant information about financial performance and achievement of financial targets
- Consider any reports from other sources within the “three lines of assurance” integrated assurance framework

Summer Meeting

- Review performance relating to risk management
- Review and consider the accounts for the financial year just finished
- Consider (emerging) External Audit opinion for the financial year just finished
- Review assurances provided by senior staff for the annual governance statement
- Consider Internal Audit opinion for the financial year just finished
- Consider an annual report on fraud and security
- Advise the Accountable Officer on signing the accounts and governance statement
- Consider any reports from Internal Audit and management responses
- Consider a financial report, including relevant information about financial performance and achievement of financial targets
- Consider an annual report to the Board and Accountable Officer
- Consider any reports from other sources within the “three lines of assurance” integrated assurance framework

Autumn Meeting

- Review performance relating to risk management
- Review the performance management arrangements adopted by the body including, where appropriate, the timetable for reviewing such arrangements
- Consider any reports from Internal Audit and management responses
- Consider the External Audit management letter for the previous financial year and the response to/implementation of any recommendations
- Consider a financial report, including relevant information about financial performance and achievement of financial targets
- Consider any reports from other sources within the “three lines of assurance” integrated assurance framework

Winter Meeting

- Review performance relating to risk management
- Consider any reports from Internal Audit and management responses
- Consider a financial report, including relevant information about financial performance and achievement of financial targets
- Consider the committee's own effectiveness in its work
- Review the committee's Terms of Reference
- Consider any reports from other sources within the “three lines of assurance” integrated assurance framework

Annex F: Key lines of enquiry

This list of questions is not intended to be exhaustive or restrictive nor should it be treated as a tick list substituting for detailed consideration of the issues it raises. Rather it is intended to act as a 'prompt' to help the committee ensure that their work is comprehensive.

On the strategic processes 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 risk register is an accurate reflection of 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 organisation or is it treated as a box ticking exercise?
- that the organisation as a whole is 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 AO's annual governance statement is meaningful, and what evidence underpins it?
- that the governance statement appropriately discloses action to deal with material problems?
- that the organisation is appropriately considering the results of the effectiveness review underpinning the governance statement?

On risk management processes, how do we know:

- how senior management (and Ministers where appropriate) support and promote risk management?
- how well are people equipped and supported to manage risk well?
- that there is a clear risk strategy and policies?

- that the organisation's risk appetite has been articulated?
- that there are effective arrangements for managing risks with partners?
- that the organisation's processes incorporate effective risk management?
- if risks are handled well:
 - key strategic risks can change very quickly?
 - scenario planning and stress testing?
 - bubbling under' risks?
- Risk focus is wide enough:
 - external and emerging risks are considered?
 - 'financial' risks and 'non-financial' risks are reviewed?
- if risk management contributes to achieving outcomes?
- that management are regularly reviewing top risks?

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

- that the Internal Audit strategy is appropriate for delivery of a positive reasonable assurance on the whole of risk, control and governance?
- that the internal audit plan will achieve the objectives of the Internal Audit strategy, and in particular is it adequate to facilitate a positive, reasonable assurance on the key risks facing the organisation?
- that Internal Audit has appropriate resources, including skills, to deliver its objectives?
- that Internal Audit takes appropriate account of other assurance activity, especially in the first and second line (and that this assurance is understood and owned by management)? that Internal Audit recommendations that have been agreed by management are timeously implemented?
- that any issues arising from line management not accepting Internal Audit recommendations are appropriately escalated for consideration?

- that the quality of Internal Audit work is adequate? What does application of the Internal Audit Quality Assessment process tell us about the quality of the Internal Audit service?
- that there is appropriate co-operation between the internal and external auditors?
- The Accountable Officer and Board have taken all necessary steps to make themselves aware of any relevant information and that auditors are aware of that information?

A more detailed tool for evaluation of the quality of the Internal Audit service is the “Internal Audit Quality Assessment Framework” produced by HM Treasury.

On the accounting policies, the accounts, and the annual report of the organisation, how do we know:

- how effective and accurate budgeting and in-year forecasting is?
- if the finance function is fit for purpose?
- what the “hidden” financial risks are, relating to (inter alia):
- HR?
- VAT?
- Overruns?
- Sudden loss of funding/revenue?
- that the accounting policies in place comply with relevant requirements, particularly the HMT *Financial Reporting Manual*?
- there has been due process in preparing the accounts and annual report and is that process robust?
- that the accounts and annual report have been subjected to sufficient review by management and by the Board and Accountable Officer?
- that when new or novel accounting issues arise, appropriate advice on accounting treatment is gained?
- 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 kept?

- 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?
- if the accounts have been qualified, that appropriate action is being taken to deal with the reason for qualification?
- that issues raised by the External Auditors are given appropriate attention?

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 auditors stand by as being important?

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

- corporate governance arrangements operate effectively and are clear to the whole organisation?
- the Accountable Officer's Governance Statement is meaningful, and that robust evidence underpins it?
- the Governance Statement appropriately discloses action to deal with material problems?
- the Board/Executive is appropriately considering the results of the effectiveness review underpinning the annual Governance Statement?
- the range of assurances available is sufficient to facilitate the drafting of a meaningful annual Governance Statement?
- those producing the assurances understand fully the scope of the assurance they are being asked to provide, and the purpose to which it will be put?
- effective mechanisms are in place to ensure that assurances are reliable and adequately evidenced?

- assurances are 'positively' stated (i.e. – premised on sufficient relevant evidence to support them)?
- the assurances draw appropriate attention to material weaknesses or losses which should be addressed?
- the annual Governance Statement realistically reflects the assurances on which it is premised?

On the work of the committee 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 understand all of the sources of assurance available to the organisation?
- that we have sufficient time to give proper consideration to our business?
- that our individual members are avoiding any conflict of interest?
- that we are avoiding “group think”
- what impact we are having on an organisation?

Annex G: Competency framework

All members of the committee should have, or acquire as soon as possible after appointment:

- understanding of the objectives of the organisation and current significant issues for the organisation;
- understanding of the organisation's structure, including key relationships such as that with a sponsoring directorate/portfolio or a major partner;
- understanding of the organisation's culture;
- understanding of any relevant legislation or other rules governing the organisation;
- understanding of the organisation's three lines of assurance and sources of assurance;
- broad understanding of the government environment, particularly accountability structures and current major initiatives.

The committee should collectively possess:

- knowledge/skills/experience (as appropriate and required) in:
 - accounting;
 - risk management;
 - audit;
 - technical or specialist issues pertinent to the organisation's business.
- experience of managing similar sized organisations and people management skills;
- understanding of the wider relevant environments in which the organisation operates;
- detailed understanding of the government environment and accountability structures.

Annex H: Self-assessment checklist

Role and remit	YES/NO/NA	Comments/Action
Does the committee have written terms of reference?		
Do the terms of reference cover the core functions as identified in the <i>SG Audit and Assurance Committee Handbook</i> ?		
Are the terms of reference approved by the Audit and Assurance Committee and reviewed periodically?		
Has the committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?		
Does the body's governance statement mention the committee's establishment and its broad purpose?		
Does the committee periodically assess its own effectiveness?		
Membership, induction and training	YES/NO/NA	Comments/Action
Has the membership of the committee been formally agreed by the management board and or Accountable Officer and a quorum set?		
Are members appointed for a fixed term?		

Does at least one of the committee members have a financial background?		
Are all members, including the Chair, independent of the Executive function?		
Are new committee members provided with an appropriate induction?		
Has each member formally declared his or her business interests?		
Are members sufficiently independent of the other key committees of the Board?		
Has the committee considered the arrangements for assessing the attendance and performance of each member?		
Meetings	YES/NO/NA	Comments/Action
Does the committee meet regularly, at least four times a year?		
Do the terms of reference set out the frequency and broad timing of meetings?		
Does the committee calendar meet the body's business and governance needs, as well as the requirements of the financial reporting calendar?		
Are members attending meetings on a regular basis and if not, is appropriate action taken?		

Does the Accountable Officer attend all meetings and, if not, is he/she provided with a record of discussions?		
Does the committee have the benefit of attendance of appropriate officials at its meetings, including representatives from internal audit, external audit and finance?		
Internal control	YES/NO/NA	Comments/Action
Does the committee consider the findings of annual reviews by internal audit and others, on the effectiveness of the arrangements for risk management, control and governance?		
Does the committee consider the findings of reviews on the effectiveness of the system of internal control?		
Does the committee have responsibility for review of the draft governance statement and does it consider it separately from the accounts?		
Does the committee consider how accurate and meaningful the governance statement is?		
Does the committee satisfy itself that the arrangements for risk management, control and governance have operated effectively throughout the reporting period?		
Has the committee considered how it should coordinate with other committees that may have responsibility for risk management and corporate governance?		

Has the committee satisfied itself that the body has adopted appropriate arrangements to counter and deal with fraud?		
Has the committee been made aware of the role of risk management in the preparation of the internal audit plan?		
Does the committee's terms of reference include oversight of the risk management process?		
Does the committee consider assurances provided by senior staff?		
Does the committee receive and consider stewardship reports from senior staff in key business areas such as Finance, HR and ICT?		
Financial reporting and regulatory matters	YES/NO/NA	Comments/Action
Is the committee's role in the consideration of the annual accounts clearly defined?		
Does the committee consider, as appropriate:		
• the suitability of accounting policies and treatments		
• major judgements made		
• large write-offs		
• changes in accounting treatment		

• the reasonableness of accounting estimates		
• the narrative aspects of reporting?		
Is an committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?		
Does the committee review management's letter of representation?		
Does the committee gain an understanding of management's procedures for preparing the body's annual accounts?		
Does the committee have a mechanism to keep it aware of topical legal and regulatory issues?		
Internal audit	YES/NO/NA	Comments/Action
Does the Head of Internal Audit attend meetings of the committee?		
Does the committee consider, annually and in detail, the internal audit plan including consideration of whether the scope of internal audit work addresses the body's significant risks?		
Does internal audit have a direct reporting line, if required, to the committee?		

As well as an annual report from the Head of Internal Audit, does the committee receive progress reports from internal audit?		
Are outputs from follow-up audits by internal audit monitored by the committee and does the committee consider the adequacy of implementation of recommendations?		
If considered necessary, is the committee chair able to hold private discussions with the Head of Internal Audit?		
Is there appropriate co-operation between the internal and external auditors?		
Does the committee review the adequacy of internal audit staffing and other resources?		
Are internal audit performance measures monitored by the committee?		
Has the committee considered the information it wishes to receive from internal audit?		
Has the committee considered formal terms of reference defining internal audit's objectives, responsibilities, authority and reporting lines?		
External audit	YES/NO/NA	Comments/Action
Does the external audit representative attend meetings of the committee?		

Do the external auditors present and discuss their audit plans and strategy with the committee (recognising the statutory duties of external audit)?		
Does the committee chair hold periodic private discussions with the external auditor?		
Does the committee review the external auditor's annual report to those charged with governance?		
Does the committee ensure that officials are monitoring action taken to implement external audit recommendations?		
Are reports on the work of external audit presented to the Audit and Assurance Committee?		
Does the committee assess the performance of external audit?		
Does the committee consider the external audit fee?		
Administration	YES/NO/NA	Comments/Action
Does the committee have a designated secretariat?		
Are agenda papers circulated in advance of meetings to allow adequate preparation by committee members and attendees?		
Do reports to the committee communicate relevant information at the right frequency, time, and in a format that is effective?		

Does the committee issue guidelines and/or a pro forma concerning the format and content of the papers to be presented?		
Are minutes prepared and circulated promptly to the appropriate people, including all members of the Board?		
Is a report on matters arising presented or does the Chair raise them at the committee's next meeting?		
Do action points indicate who is to perform what and by when?		
Does the committee provide an effective annual report on its own activities?		
Overall	YES/NO/NA	Comments/Action
Does the committee effectively contribute to the overall control environment of the organisation?		
Are there any areas where the committee could improve upon its current level of effectiveness?		
Does the committee seek feedback on its performance from the Board and Accountable Officer?		



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