



Department for the  
**Economy**

**AUDIT CODE  
FOR THE GOVERNING BODIES (and AUDIT AND RISK  
COMMITTEES) OF  
FURTHER EDUCATION COLLEGES**

**1 April 2018**

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**AUDIT CODE: FOR GOVERNING BODIES and AUDIT AND RISK COMMITTEES OF  
FURTHER EDUCATION COLLEGES**

**CHAPTER 1: INTRODUCTION**

- The Management Statement/Financial Memorandum (MS/FM) between the Department for the Economy (referred to as the Department within this Audit Code) and the Colleges of Further Education sets out the arrangements for the payment of funds provided by the Northern Ireland Assembly. The guidance contained in this Audit Code embodies the Department's requirements in relation to this funding and specifically the audit/risk assurance function.
- The Audit Code is primarily to guide members of governing bodies, particularly those appointed to the Audit and Risk Committee, senior managers in colleges, and internal auditors.
- The "Corporate governance in central government departments: Code of Good Practice (NI) 2013" (thereafter referred to as "the 2013 Code ") Principle 5.1 provides that:
  - The Board, or Governing Body in the case of the colleges, should ensure that there are effective arrangements for governance, risk management and internal control for the whole college. The Governing Body should be supported by:
    - an Audit and Risk Assurance Committee (thereafter called Audit and Risk Committee), chaired by a suitably experienced member of the Governing Body;
    - an internal audit service operating to Internal Audit standards issued by the Department of Finance (DoF); and
    - sponsor team of the Department. In the case of the Colleges this is Further Education Policy Division.
- On Audit and Risk Committees, this principle is supported by six supporting provisions in the 2013 Code.
  - The Accounting Officer and Governing Body should be supported by an Audit and Risk Committee, comprising of no fewer than four members. A quorum shall be at least three members;
  - Advising on key risk is a role for the Governing Body. The Audit and Risk Committee should support the Governing Body in this role;
  - An Audit and Risk Committee should not have any executive responsibilities or be charged with making or endorsing any decision;
  - The Governing Body should ensure that there is adequate support for the Audit and Risk Committee, including a secretariat function;

- The Audit and Risk Committee should normally lead the assessment of the annual Governance Statement for the Governing Body; and
  - The terms of reference of the Audit and Risk Committee should be made available publicly.
- The 2013 Code requires that the Audit and Risk Committee should report annually on the work of the Committee in discharging its responsibilities. In the case of colleges, an annual report is completed and forwarded to FE Corporate Governance and Accountability Branch for scrutiny. In accordance with this Audit Code the Audit and Risk Committees should focus on:
    - assurance arrangements over governance; financial reporting, annual reports and accounts; including the Governance Statement; and
    - ensuring there is an adequate and effective risk management and assurance framework in place. It should be noted that the remit of an Audit and Risk Committee should be clear and distinct from executive risk management work or risk management committees that may exist in some organisations.
  - This Audit Code sets out good practice principles for Audit and Risk Committees in Further Education Colleges along with a summary of the mandatory requirements which must be adhered to by Colleges. Within this Audit Code "must", "shall" and "will" denote a mandatory requirement and "should" denotes the Department's view of good practice.
  - Any non-compliance with the mandatory requirements and/or significant non compliance with the good practice principles of this Audit Code should be explained and reported in the college's Governance Statement. Other non-compliance may also be reported.

## **CHAPTER 2: MEMBERSHIP, INDEPENDENCE, OBJECTIVITY AND UNDERSTANDING**

### **Membership/Independence: Audit and Risk Committee**

- An effective Audit and Risk Committee must have members who are both independent and objective. The Accounting Officer and Governing Body should be supported by an Audit and Risk Committee, comprising of at least four members. Details on the Committee are set out in the Articles of Government and the Instrument of Government of the College.
- Non-Executive Board Members should make up the majority of Audit and Risk Committee Members, but DoF advises that it remains appropriate for senior officers from other public sector bodies to be appointed as independent external members where necessary. Care should be taken to ensure there is no conflict of interest in such appointments. It is also important to note that where such independent external appointments are made, the appointment should not be directly reciprocated between organisations. Furthermore such appointments from the wider public sector should not be remunerated positions.
- 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 college (see Chapter 3). The Committee, following agreement by the Chair/Governing Body may appoint an independent advisor, for a period not exceeding one year, from sources other than the Governing Body in order to ensure an appropriate level of skills and experience. Any individual recruited for this purpose would not have the status of a member appointed to the Governing Body (no voting rights).
- Members should not be members of any college finance committee or its equivalent. The chair of the Governing Body cannot be a member, or chair of, the Audit and Risk Committee.

### **Independence: Internal Audit**

- Independence is fundamental to the effectiveness of internal audit. Accordingly, internal auditors must avoid any official, professional or personal relationships or interests that may cause them to limit the extent and character of their audit. Internal audit should determine its own priorities within a plan prepared after consultation with senior management and approved by the Governing Body and the Accounting Officer, on the recommendation of the Audit and Risk Committee. If Internal Audit is called upon to carry out specific investigations, such reviews should not compromise their objectivity, independence or the achievement of their audit plan.
- If an internal audit service is provided from within the college's staffing complement, the service must be a separate function from the management of the college and must not have any management responsibilities other than for internal audit. For day-to-day

administrative purposes, the internal audit service should be responsible to a senior officer within the college.

- To be effective, internal audit should have sufficient status and be seen to have respect and support within the college. The internal auditor must have direct access to the Accounting Officer and the Governing Body, normally through the chair of the Audit and Risk Committee. The internal auditor must also have unrestricted access to all records, assets, personnel and premises, and be authorised to obtain such information and explanations as considered necessary by him/her.
- The overall approach must be in line with the Public Sector Internal Audit Standards (PSIAS) and make use of the college's risk assessment process to inform internal audit's procedures, plans and reports. Internal Audit may need to consider areas of concern specifically requested by the Department, the Public Accounts Committee (PAC) or the Department of Finance.

### **Relationship with the College Senior Management**

- College Senior Management are not deemed to be members of the Audit and Risk Committee. The role of the Senior Management is to attend, to provide information, and to participate in discussions, either for the whole duration of a meeting or for particular items.
- The Accounting Officer and the Finance Director should normally attend the Audit and Risk Committee. It is also normal for the Head of Internal Audit and a representative of the Northern Ireland Audit Office (NIAO) to attend. However, the terms of reference should also provide for the Audit and Risk Committee to sit privately without any non-members present for all or part of a meeting if they so wish.
- It is also good practice for the Chair of the Audit and Risk Committee to meet the Accounting Officer, the Finance Director, the Head of Internal Audit and the NIAO's senior representative outside of the formal Committee structure (see Communication and reporting, Chapter 5).

### **Conflicts of interest: Audit and Risk Committee**

- There must be a process for recording declarations of conflicts of interests in the Audit and Risk Committee, normally this should mirror the processes used at Governing Body level. Each member of the Committee should take personal responsibility to declare proactively any potential conflict of interest arising out of business undertaken by the college, arising on the Committee's agenda or from changes in the member's personal circumstances. The Chair of the Committee 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 stand down from the Committee. If it is the Chair who has a conflict of interest, the Accounting Officer/Governing Body 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 extent and duration of the conflict of

interest: a conflict likely to endure for a long time is more likely to suggest that the member should stand down.

### **General Conflicts of Interest and Auditors**

- Although the following examples are not intended to be comprehensive, they illustrate cases where there is *prima facie* evidence of a conflict of interest which the college will need to discuss with potential tenderers:
  - a partner of a firm of accountants sits on the management board of a college which is seeking tenders for an internal audit appointment;
  - a firm that acts as the internal auditor of a body expresses an interest in another assignment within the body; and
  - a firm that expresses an interest in tendering for an audit appointment of a body already seconds some of its employees to that body (for example as investigative accountants).
- If the firm can demonstrate that there will be an arm's length relationship between the audit team and the partner or employees and that there are adequate procedures to prevent unauthorised access to information, there may, in fact, be no conflict of interest, but each case must be considered on its merits.
- The college should also establish whether a particular firm would have a conflict of interest if it were appointed as internal auditor. If the college has any doubt about conflicts of interest they should consult the Department.

### **Conflicts of Interest and Auditors Undertaking Consultancy Assignments**

- The College needs to ensure that actual or potential conflicts of interest do not arise when employing internal auditors and when additional consultancy work is being undertaken. Following the report of the Comptroller and Auditor General entitled "*Auditors and Conflicts of Interest*", the Department has established procedures in place to ensure that such conflicts of interest are identified and investigated prior to consultancy work being awarded to current auditors.
- In all circumstances, where a private sector firm is engaged to provide a contracted internal audit function, the same firm should not be engaged to undertake external audit or consultancy work during a period when it might be reasonably considered that the objectivity of internal audit might be seen as questionable. As a minimum, this will include the current internal audit contract period. In appointing a private sector firm to act as the internal auditor, account must also be taken of previous consultancy work undertaken by the firm or of any non executive role played by a member of the firm which could reasonably be seen as impacting upon internal audit independence.

- If a college wishes to appoint an internal auditor to perform any other consultancy work, or include them in a tender for such work, it must seek approval from the Department/CPD, regardless of the value of the work to be carried out.

### **Terms of appointment**

- All members of the Audit and Risk Committee should have a clear understanding of:
  - i. what is expected of them in their role, including time commitments;
  - ii. 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 Risk Committee membership should be considered;
  - iii. the duration of their appointment and how often it may be renewed; and
  - iv. training required and how this will be provided.
- The terms of appointment of an Audit and Risk Committee member should be clearly set out at the time of appointment. . The impact on independence of any remuneration from other activities should be given careful consideration.

## **CHAPTER 3: SKILLS**

### **Range of skills**

- The Audit and Risk Committee is charged with ensuring that the Accounting Officer and Governing Body of the college gain the assurance they need on governance, risk management, the control environment and on the integrity of the financial statements, as well as other elements of the Annual Report and Accounts. It needs a good range of skills and experience in relation to governance, risk and control. Because of the importance of financial management and reporting to every college, at least one member of the Committee should have recent and relevant financial experience sufficient to allow them to competently analyse the financial statements and understand good financial management disciplines. The College may contact the Department for advice and guidance in relation to training for Audit and Risk Committee members. Committee members should be provided with a copy of this guidance.
- The Audit and Risk Committee should identify, and agree with the and Governing Body, the other skills required for committee effectiveness. These wider skills may be in relation to the core business of the college or related to key developments, for example relating to change management or IT where this is of strategic significance to the college. The required skills set should be periodically reviewed.
- As the Audit and Risk Committee matures, the skills and knowledge of the members should also develop, enabling them to focus on the key issues facing the college. Audit and Risk Committee networking or conferences within and across departmental boundaries can be a good way to keep up with current developments.
- Although Audit and Risk Committee members are recruited for their individual skills, it is vital that they are able to work collaboratively.

### **Additional skills**

- The Audit and Risk Committee should be empowered to:
  - draft in an advisor for a period of time not exceeding a year (and with the approval of the Chair/Governing Body) to provide specialist skills, knowledge and experience which the Committee needs at a particular time. Any individual recruited for this purpose would not have the status of a member appointed to the Governing Body (no voting rights); and
  - procure specialist advice at the expense of the college on an ad-hoc basis to support them in relation to particular pieces of Committee business. This should be done with the Accounting Officer's/Governing Body's approval and in line with Northern Ireland Public Procurement Policy.

### **Training and development**

- All Audit and Risk Committee members, whatever their status or background, will have training and development needs. Those who have recently joined the Audit and Risk Committee will need induction training to help them understand their role and/or the

college. In particular those joining a public sector Audit and Risk Committee for the first time with no experience of government will need training to help them understand the public sector accountability framework, especially those elements relating to governance and accountability.

- The Committee Chair should, in addition, ensure that all Committee members have an appropriate programme of engagement with the college and its activities to help them understand the college, its objectives, business needs, priorities and risk profile.
- Annex F provides a suggested Competency Framework for Audit and Risk Committee.

## **CHAPTER 4: THE ROLE AND SCOPE OF THE AUDIT AND RISK COMMITTEE, INTERNAL AND NIAO**

### **Supporting the Accounting Officer and the Governing Body**

- Accounting Officers and Governing Bodies have many issues competing for their attention. One of the challenges they and their members 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” (The Orange Book: Management of Risk, Principles and Concepts).
- 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 Accounting Officer and Governing Body to judge whether or not its agenda is focussing on the issues that are most significant in relation to achieving the college’s objectives and whether best use is being made of resources. The Audit and Risk Committee can help the Accounting Officer and Governing Body to formulate their assurance needs, and then consider how well assurance received actually meets these needs by gauging the extent to which assurance on the management of risk is comprehensive and reliable. Assurance cannot be absolute so the Committee will need to know that the college is making effective use of the finite assurance mechanisms at its disposal, targeting these at areas of greatest risk.
- Formulation of the specific assurance need is key to determining the resource that needs to be dedicated to delivery of assurance in the college. Key elements include:
  - the strategic outcomes and objectives which the college 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 PSIAS.
- A well designed assurance framework will help. At its simplest, this will identify all the key sources of assurance in the college 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 defence’. 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, separate from those responsible for delivery, but not independent of the college'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 work of Internal Audit is provided later in this chapter.
- An understanding of the three lines of defence can help the Audit and Risk Committee to play a key role in helping the Accounting Officer and Governing Body 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 Risk Committee to demonstrate added value to the college. Advice on developing assurance frameworks is available in the Treasury Assurance Framework Guidance document.
  - The overall provision of assurances to the Accounting Officer and Governing Body should be reviewed by the Audit and Risk Committee, which should constructively challenge:
    - whether the nature and scope of the assurance providers' activity meets the Accounting Officer's and Governing Body's assurance needs;
    - the credibility and independence of each provider; and
    - where appropriate, the actual assurances to test that they are founded on sufficient reliable evidence and that conclusions are reasonable in the context of the evidence.
  - The Audit and Risk 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 that weaknesses identified by reviews that have been conducted are actually remedied by management.
  - A "prompt" list of questions for Audit and Risk Committees to ask is provided at Annex E.
  - The overall Audit and Risk 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 college organisation's operations more assurance work may be needed, subject to an assessment of costs and benefits.

- 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 college are considered as parts of an “Extended Enterprise”.
- 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 Risk Committee Forum. Any such Forum should focus on assurances on cross organisational governance, risk and control arrangements.
- The timing and content of the Audit and Risk Committee meetings should follow as far as possible the planning and reporting cycles of internal auditors and the NIAO and take account of the Department's requirements for the submission of annual reports. The principal, head of finance (or equivalent), the head of internal audit, and a representative from the NIAO shall normally attend meetings where business relevant to them is to be discussed.together with any other staff invited to attend. A representative from the NIAO should normally attend any meetings where an external audit report is being considered. In line with NIAO recommendations, a representative from the Department will attend all of the college's Audit and Risk Committee meetings, circumstances permitting. Both the internal auditor and the NIAO must have the right of access to the chair of the Audit and Risk Committee and also have the right to ask him/her to convene a meeting if necessary.
- The Audit and Risk Committee must have explicit authority to investigate any matters within its terms of reference, and full access to information and personnel.
- The Audit and Risk Committee should also identify and approve appropriate performance measures for internal auditors and monitor their performance.
- The Governing Body, through the Audit and Risk Committee, should be responsible for ensuring that prompt and effective action is taken on those audit reports that call for it, or for recognising and accepting the risks resulting from not taking action. The Principal, as Accounting Officer, will have ultimate responsibility in this regard.
- Audit and Risk Committees must ensure that they regularly monitor progress on the implementation of audit recommendations from internal auditors, the NIAO and the Department.
- It is recommended that each Audit and Risk Committee should carry out a formal exercise, at least on an annual basis, in order to assess if it is operating in line with best practice. To assist this process, the National Audit Office has developed a self assessment checklist (The Audit and Risk Committee self-assessment checklist – National Audit Office). Whilst designed principally for government departments, the guidance is useful for all public sector organisations.

## **Objectives**

- The Audit and Risk Committee should provide additional assurance regarding the quality and reliability of financial information and student data used by the body as well as

financial statements and student data issued by the college. An effective Audit and Risk Committee can bring significant benefits to a college and has the potential to:

- improve the quality of financial reporting and management information by reviewing financial statements and student data reports on behalf of the Governing Body;
  - create a climate of discipline and control which will reduce the opportunity for fraud;
  - enable the non-executive Governing Body members to contribute an independent judgement and play a positive role in ensuring college operations are subject to adequate control;
  - help finance staff by providing a forum in which concerns can be raised;
  - provide a framework within which the NIAO, as the college's external auditor, can outline the circumstances surrounding any serious disputes with college management;
  - increase confidence in the credibility and objectivity of financial statements and student data reports;
  - strengthen the position of the internal audit function by providing a greater degree of independence from management; and
  - monitor the effectiveness of risk management, control and governance framework in the college.

### **Internal and external audit**

- For any government organisation there will always be two significant sources of independent and objective assurance: Internal Audit and External Audit.
- In central government, the NIAO under the Comptroller and Auditor General (NI) is responsible for the external audit of most public bodies in Northern Ireland. Although the work of the NIAO is normally primarily conducted for the benefit of the Assembly it is still of significant benefit and an assurance form to the college.
- In accordance with the MS/FM, each college is required to have an internal audit function. The work of Internal Audit is carried out primarily for the benefit of the Governing Body and Accounting Officer of the college and is likely to be the single most significant resource used by the Audit and Risk Committee in discharging its responsibilities. This is because the Head of Internal Audit, in accordance with the PSIAS, has a responsibility to provide an annual opinion on the overall adequacy and effectiveness of the college'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 Risk Committee.

- The role of the Audit and Risk Committee in relation to Internal Audit should include advising the Governing Body and Accounting Officer on:
  - the Internal Audit strategy and periodic Internal Audit plans, forming a view on how well they reflect the college 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.

### **INTERNAL AUDIT ARRANGEMENTS**

- There are a variety of ways of procuring an internal audit service that would meet the requirements of the MS/FM:
  - Appoint a head of internal audit and staff as necessary. An "in-house" team may also be supplemented from time to time with external consultants or contractors, under the direction of the internal auditor, to meet any peaks in workload or provide specialist skills.
  - Form a consortium with one or more other colleges. Consortia may be organised on an "in-house" basis or may be contracted to an external provider.
  - Contract with an external provider, such as an accountancy firm.
- If a college decides to provide the service in-house it must ensure that it is appropriately staffed in terms of numbers, qualification and experience, having regard to its objectives and standards.
- It is for each college, advised by its Audit and Risk Committee, to establish which method is the most suitable and cost-effective way of obtaining an internal audit service.
- The college must liaise with Central Procurement Division at an early stage of the procurement process to ensure that current Department of Finance requirements, in respect of relevant qualifications and experience, are met

### **Standards**

- The internal audit provision should conform to the standards for internal audit set out in PSIAS and the head of internal audit should implement measures to monitor and report annually the effectiveness of the service and compliance with relevant standards. These performance measures should be considered and approved by the Audit and Risk Committee. In line with PSIAS standards, the Audit and Risk Committee should also consider asking the Department, or other suitable professionals, to provide an independent external assessment of the effectiveness of internal audit at least once every five years. This information should be used to contribute towards the committee's annual assessment of the performance of the internal audit service. Audit and Risk Committees should ensure that providers formally demonstrate full compliance with PSIAS.

### **General Principles**

- The terms of reference for internal audit should enable the internal auditor to give the Governing Body and the accounting officer the desired quality of assurance on the adequacy, reliability and effectiveness of the college's internal control systems.
- The scope of the internal audit service must embrace the whole internal control system of the college including all its operations, resources, staff, services and responsibilities. It must cover all activities in which the college has a financial interest including those not funded by the Department.
- Internal audit should not question policy, but should consider the effects of policy and the arrangements by which the policy decision has been reached.
- As an integral part of its responsibility to evaluate internal control systems, internal audit examines the control established by management to secure value for money. In view of their independence and professional expertise in review, analysis and investigative work, internal auditors are often regarded as particularly suitable for conducting specific value for money studies. Colleges should consider the extent to which they can utilise internal audit to undertake such studies and thereby assist management in meeting its responsibility for securing economic, efficient and effective use of its resources. Care should be taken when selecting value for money studies to avoid any conflict with other similar current or planned studies in the further education sector. Independent value for money specialists may also be engaged either to work under the direction of, alongside, or as an alternative to, internal audit.
- The terms of reference for specific studies must be agreed with the Audit and Risk Committee and management prior to work commencing and appropriate provisions should be made for the audit resources required. When planning value for money studies, care must be taken to ensure that the independence of internal audit and the achievement of its audit plan are not compromised.

### **Terms of Reference**

- A copy of any contract or internal audit engagement or changes thereto must be submitted to the Department.

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## **Categorisation of Findings and Opinions**

- Assurances to be provided by internal auditors must be categorised in line with the latest DAO on Internal Audit Opinion. Similarly, findings in all internal audit reports must be assigned a “priority” rating in line with the definitions set out in the latest DoF guidance on - Priority Ratings for Internal Audit Recommendations

## **Reporting**

- At the conclusion of each audit assignment, the internal auditor should provide a report that sets out the findings and recommendations arising and also, if relevant, an opinion on the reliability and adequacy of that part of the system of internal control reviewed. The internal auditor should normally consult the relevant managers on the draft report prior to final issue.
- The internal audit service must produce an annual report of the activities in which it was engaged during the college's accounting period. The report must be submitted to the Governing Body and the accounting officer no later than one month after the period end and be considered by the Audit and Risk Committee. The report must be made available to the Governing Body before the responsibility statement contained within the college's annual accounts is signed. As a minimum, it must include the internal audit assessment of the adequacy and effectiveness of the internal control system; report achieved coverage against the audit plans; provide a set of internal audit performance measures and draw attention to any audit recommendations which internal audit considers have not received adequate management attention. In the annual report, the internal auditor must provide his/her opinion on the adequacy and effectiveness of controls to prevent fraud. The internal audit annual report must be copied to the Department along with the report of the Audit and Risk Committee. The internal audit annual report should be sent to the Department by the deadline set out in the annual timetable of returns.

## **Change of Internal Audit Service**

- The internal audit working papers are the property of the college. The college should make arrangements for relevant audit documentation to be passed to the incoming auditor in the event of a change in the provision of the service. This will avoid costly repetition of work and ease transition. Incoming auditors may find it useful if the college has made arrangements to meet with the outgoing auditors in addition to the transfer of documentation. For a college whose internal audit is provided on a contract basis, such arrangements should be included in the formal contract.
- The College should agree to a capping of £1m in respect of an auditor's liability in respect of audit opinions given.

## **Removal or Resignation of Auditors**

- The Governing Body may by resolution remove the internal auditor before the end of their term of office in the event of serious shortcomings being identified.
- Where an internal auditor ceases to hold office for any reason, they must provide the Governing Body with either a statement of any circumstances connected with the removal or resignation that it considers should be brought to their attention or a statement that there are no such circumstances. The internal auditor may also requisition a special meeting of the Governing Body to consider the statement.
- The Governing Body must inform the Department without delay of the removal or resignation of the internal auditor. In addition, the Department should be sent a copy of any statement provided to the Governing Body by the outgoing auditor.

### **Relationships with Other Auditors**

- Relationships with management, staff, NIAO and other review agencies must be centred on the need for mutual confidence, understanding of role and co-operation.
- The internal auditor should liaise with NIAO to enhance the level of service provided to the college and the Department. NIAO should be given access to the internal auditor's working papers and plans so that their work programmes may be adjusted accordingly and also so that the extent of their reliance on the work of the internal auditor can be determined.
- Copies of the internal audit reports should be provided as a matter of course to the NIAO. The internal auditor should also receive copies of the NIAO's 'Report to Those Charged with Governance' and any other relevant reports produced by other agencies for the college.
- On occasion, the Department may wish to meet with the college's internal auditors. Formal discussions with the internal auditor will normally be arranged through the college. The College should ensure that provisions for such meetings are included in the terms of engagement of internal auditors as an integral part of their service.

## **EXTERNAL AUDIT ARRANGEMENTS**

### **Role of NIAO**

- The primary role of NIAO is to report on the financial statements of Further Education Colleges, and to carry out whatever examination of the statements and underlying records and control systems is necessary to reach their opinion on the statements. The role of NIAO to the further education colleges is performed by the Northern Ireland Audit Office as set out in The Institutions of Further Education (Public Sector Audit) Order (Northern Ireland) 2008.
- Whilst the work of the NIAO is not primarily conducted for the benefit of the college, the Audit and Risk Committee should nevertheless engage with this activity. As well as

considering the results of external audit work and resolution of identified weaknesses, they should enquire about and consider the NIAO planned audit approach. They should also consider the way in which the NIAO is co-operating with Internal Audit to maximise overall audit efficiency, capture opportunities to derive a greater level of assurance and minimise unnecessary duplication of work. In addition they should review and consider the potential implications for the college of the wider work carried out by the NIAO, for example, Value for Money reports and good practice findings.

## **Governance**

- It is essential that the Audit and Risk Committee understands how governance arrangements support achievement of the Department's strategies and objectives, especially:
  - the Programme for Government, including the Department'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 college organisation;
  - communication of management information, including on risk and control among the Governing Body and to appropriate areas of the college organisation.

## **Risk Management and the Control Environment**

It is also essential that the Audit and Risk Committee:

- understands the college's business strategy, operating environment and the associated risks, taking into account all key elements of the college as parts of an "Extended Enterprise";
- understands the role and activities of the Governing Body (or equivalent senior governance body) in relation to managing risk;
- discusses with the Governing Body 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 college; and

- critically challenges and reviews the adequacy and effectiveness of control processes in responding to risks within the college's governance, operations, compliance and information systems.

### **Financial Management and Reporting**

- The Audit and Risk 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.
- The Audit and Risk 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:
  - the integrity of financial statements and the annual report;
  - 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 NIAO (especially the Report to Those Charged With Governance – ISA 260 Report).

### **Terms of reference**

- The Audit and Risk Committee's terms of reference should be agreed by the Governing Body and made publicly available (including on the college'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 regularly alongside the performance of the Audit and Risk Committee. Model Terms of Reference for an Audit and Risk Committee are suggested at Annex C.
- The responsibilities assigned to the Audit and Risk Committee should not provide any conflict with the guidance in this handbook, in particular by compromising independence. An Audit and Risk 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 Audit and Risk Committee is to advise the Accounting Officer and Governing Body; it is then the Accounting Officer and Governing Body that makes the relevant decisions.

- The Audit and Risk Committee should have appropriate authority to require any member of the college 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 an Audit and Risk Committee meeting; or
  - providing written report(s) to the Audit and Risk Committee for the purpose of providing information to assist the Committee in fulfilling its role.
- The Accounting Officer and Governing Body need adequate and timely feedback on the work of the Audit and Risk Committee in order to consider its contributions formally. A schedule of the Committee's agreed delegations from the Governing Body, and the mechanisms for feedback and assurance should be clearly documented.
- To fulfil its role, a departmental and most other colleges' Audit will need to meet at least four times a year. A model "core programme" of work for an Audit and Risk Committee meeting four times a year is provided at Annex D.
- The Audit and Risk 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 college organisation) provide external review of the effectiveness of the Audit and Risk Committee.

## **CHAPTER 5: COMMUNICATION AND REPORTING**

### **Communication between the Committee and the Governing Body**

- The work of the Audit and Risk Committee needs to be effectively communicated. After each meeting of the Committee a report should be prepared for the Accounting Officer and Governing Body 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 Governing Body should be taking action on.
- 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 NIAO (especially if the report contains advice about or to the auditors).

### **Improving Relationships**

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

### **Annual Reports**

- The Audit and Risk Committee should provide an Audit and Risk Committee Annual Report (see Annex G), 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 Accounting Officer and Governing Body. This report is likely to be used by the Accounting Officer and Governing Body in preparing their own report for publication in fulfilment of the reporting requirements of the Code.
- The report should include and refer to the findings of internal audit and NIAO relating to the relevant reporting period, or an update on issues raised where this is not possible, due to timing.
- The Audit and Risk Committee Annual Report should summarise the Audit and Risk Committee's work for the year past, and present the Committee's opinion about:
  - the effectiveness of governance, risk management and control;
  - the NIAO's 'Report to Those Charged with Governance';

- the internal auditor's annual report;
  - any value for money exercises and any other relevant reports;
  - the comprehensiveness of assurances in meeting the Accounting Officer's and Governing Body's needs;
  - the reliability and integrity of these assurances;
  - whether the assurance available is sufficient to support the Accounting Officer and Governing Body in their decision taking and their accountability obligations;
  - the implications of these assurances for the overall management of risk;
  - any issues the Audit and Risk Committee considers pertinent to the Governance Statement and any long term issues the Committee thinks the Accounting Officer and/or Governing Body should give attention to;
  - financial reporting for the year;
  - the quality of Internal Audit and its approach to its 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.
- The Audit and Risk Committee's report should take into account any other relevant assurance reports.

### **Bilateral communications**

- There should be mutual rights of access between each of the Chair of the Audit and Risk Committee, the Accounting Officer, Head of Internal Audit and the NIAO. 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.
- The preceding chapters are intended to provide a framework of guidance on audit related matters. Mandatory requirements have been summarised in Chapter 6.

## **CHAPTER 6: SUMMARY OF MANDATORY REQUIREMENTS OF THE DEPARTMENT**

The Audit and Risk Committee must challenge any issues arising until they are content. The responsibility for final approval and any subsequent adoption lies with the Governing Body.

- The Further Education (NI) Order 1997 requires the Governing Body of each college to establish an Audit and Risk Committee; further detail on this is contained in the Articles of Government and Instrument of Government of the college.
- The Audit and Risk Committee is answerable to the Governing Body. It must have written terms of reference and reporting arrangements that have been approved by the Governing Body. These terms of reference must form part of any contract for the provision of internal audit services by a third party. A copy of any contract or internal audit engagement or changes thereto must be submitted to the Department.
- The Audit and Risk Committee must have explicit authority to investigate any matters within its terms of reference, and full access to information and personnel.
- The following is a list of mandatory requirements that will be individually assessed for each college by the Department:
  - Each college must have an effective independent Audit and Risk Committee, made up of at least 4 members.
  - To fulfil its role, the Audit and Risk Committee will need to meet at least four times a year.
  - The Chair of the Audit and Risk Committee must be appointed from the Business, Industry or Professional classification of governor and not a co-optee. Members of the Audit and Risk Committee must not be members of a finance committee.
  - There must be a process for recording declarations of conflicts of interests in the Audit and Risk Committee;
  - The Audit and Risk Committee, advised where appropriate by its internal audit service, must satisfy itself that satisfactory arrangements are in place and operating effectively to promote economy, efficiency and effectiveness (value for money).
  - The Governing Body must take reasonable steps to ensure that there are sound arrangements for risk management, internal control systems and governance, and value for money, within the College and the Audit and Risk Committee will need to know that the college organisation is making effective use of the finite assurance mechanisms at its disposal, targeting these at areas of greatest risk.
  - The Audit and Risk Committee must produce an annual report for the Governing Body and the designated officer. The Audit and Risk Committee annual report must relate to the college financial year and include any significant issues up to the date of preparing the report which affect the opinion. The Audit and Risk Committee

annual report must include the Audit and Risk Committee's opinion on the adequacy and effectiveness of the College's risk management, control and governance arrangements; and arrangements for promoting economy, efficiency and effectiveness. Further detail on the opinion is given below and at Annex G.

- The Governing Body shall keep proper accounts and proper records in relation to the accounts. As soon as possible after each financial year end, and in line with the timetable issued annually by the Department, the Governing Body shall approve and provide the Department with a copy of the audited accounts and financial statements in respect of the Governing Body's activities during that year. Once the accounts have been examined by the Finance and General Purposes Committee, it is the role of the Audit and Risk Committee to satisfy itself with the contents of the accounts before they are approved by the Governing Body.
- The Governing Body, through the Audit and Risk Committee, shall be responsible for ensuring that prompt and effective action is taken on those audit reports that call for it, or for recognising and accepting the risks resulting from not taking action. The Principal, as Accounting Officer, will have ultimate responsibility in this regard.
- Audit and Risk Committees must ensure that they regularly monitor progress on the implementation of audit recommendations from internal auditors, the NIAO and the Department.
- If a college wishes to appoint an internal auditor to perform any other consultancy work, or include them in a tender for such work, it must seek approval from the Department/CPD. Fees paid to internal auditors for other services must be disclosed separately in a note in the financial statements.
- The work of the internal audit service must cover the whole of the risk management, control and governance arrangements of the college, along with any other areas of work as required by the Department.
- Both the head of the internal audit service and the NIAO must have direct access to the college's designated officer, the chair of the Audit and Risk Committee and, if necessary, the chair of the Governing Body. Internal auditors, as well as the NIAO, must also have unrestricted access to information including all records, assets, personnel and premises, and be authorised to obtain whatever information and explanations the head of the internal audit service or the NIAO considers necessary.
- Colleges must market test the internal audit service at least every 5 years for both quality and price. Where internal audit is provided on a contract basis, a fixed term of contract should be agreed.
- Subject to legislative constraints, the Department must have unrestricted access to information, including all records, assets, personnel and premises, and can require anyone to give any explanation which it considers necessary to fulfill its

responsibilities. This includes access to any work of the internal auditors, or correspondence between internal audit and NIAO.

- The following information must be provided to the Department's Further Education Corporate Governance and Accountability Branch:

The Governing Body must send:

- (i) a copy of the Audit and Risk Committee's annual report (Annex G of the Code);
- (ii) a copy of the internal auditors' annual report;
- (iii) the internal audit plan for the year; and
- (iv) outline of internal audit performance against the original audit plan for the year in question,

- The Governing Body must send to the Department, by the deadline set out in the annual returns timetable, a copy of the NIAO's Report to Those Charged With Governance and any management response.
- The Accounting Officer of the college must report any serious weakness, such as a significant and immediate threat to the college's financial position, significant fraud or major accounting breakdown or deviation from the MS/FM and Audit Code without delay to the chair of the college's Audit and Risk Committee, the chair of the college's Governing Body, the college's head of internal audit and the Department's accounting officer. If the Accounting Officer refuses to make an appropriate report, then the internal auditor and/or NIAO must report to them directly.
- Where an internal auditor ceases to hold office for any reason, they must provide the Governing Body with either a statement of any circumstances connected with the removal or resignation that it considers should be brought to their attention. The Governing Body must inform Department without delay of the removal or resignation of the internal auditors.

### The Role of the Chair: Good Practice

The role of the Chair of the Audit and Risk Committee goes beyond chairing meetings. Indeed, it 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 Audit and Risk Committee to the Accounting Officer and Governing Body. An annual report to the Accounting Officer and Governing Body should also be provided.
- The Chair should have bilateral meetings at least annually with the Accounting Officer, the Head of Internal Audit and the NIAO. 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 college organisation and its activities to help them understand the college organisation, its objectives, business needs and priorities.
- The Chair of the Audit and Risk Committee should establish a mechanism enabling key stakeholders to consider the overall risk and assurance needs.
- Encouraging good, open relationships between the Audit and Risk Committee, Accounting Officer, Finance Director and Internal auditors and NIAO. There are a number of ways that a Chair can encourage this.

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

- promoting audit issues internally with relevant Governing Body members and other directors to make sure they appreciate the value of audit;
- holding managers within the college organisation to account for the implementation of audit recommendations;
- 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, Governing Body members, independent members and Internal auditors and NIAO 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 NIAO) immediately before the Audit and Risk 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.

**Appraisal:**

The Chair of the Governing Body should take the lead in ensuring that Committee members are provided with appropriate appraisal of their performance as a Governing Body/Committee member and that training needs are identified and addressed. The Chair of the Audit and Risk Committee should seek appraisal of his/her performance from the Chair of the Governing Body.

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

**Appointments:**

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

### Committee Support: Good Practice

The Secretary to the Governing Body should be able to support the Chair of the Committee in identifying business to be taken, and the relevant priorities of the business. The Chair of the Committee and the Secretary to the Governing Body 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.

The specific responsibilities of the Secretary to the Governing Body in respect of the Audit and Risk Committee should include:

- meeting with the Chair of the Committee 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 Audit and Risk Committee reports to the Accounting Officer and Governing Body;
- arranging the Chair's bilateral meetings with the Accounting Officer, the Head of Internal Audit, the NIAO, and, in ALBs, with the Chair of the Governing Body etc;
- keeping the Chair and members in touch with developments and relevant background information about developments in the college 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 Audit and Risk Committee.

When the Audit and Risk Committee decides to meet privately, the Chair should decide whether the Secretary to the Governing Body 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.

### Model Terms of Reference for an Audit and Risk Committee

These terms of reference are provided for guidance only and can be modified to suit local circumstances. It is for the Governing Body to determine the terms of reference of the Audit and Risk Committee. However the Department, in exercising its approval role with regard to the College's Articles of Government and Instrument of Government, will expect close compliance with this guidance, unless there are good reasons to the contrary. The main consideration should be to ensure that the Audit and Risk Committee is independent and has sufficient authority and resources to form an opinion and to report on the internal control, risk management, governance and financial reporting arrangements of the College. The Terms of Reference should be formally approved by the Governing Body.

### Constitution and Membership

The Governing Body will establish a Committee of the Governing Body to be known as the Audit and Risk Committee. Details on the Committee are set out in the Articles of Government and the Instrument of Government of the College.

The Audit and Risk Committee provides a medium of communication from the College's auditors that are not controlled by College management. In particular the Committee should ensure that the internal control systems, including audit activities, of the College are monitored actively, independently and objectively in order to:

- promote and ensure high standards of propriety, accountability and financial management within the College;
- improve the quality of financial reporting by reviewing internal and external financial statements on behalf of the Governing Body;
- promote a financial climate of financial discipline and control which will help to reduce the opportunity for financial mismanagement or fraud;
- improve where necessary, the effectiveness of the College's internal controls and mechanisms for achieving value for money and the extent to which these comply with requirements set down by the Department;
- reinforce the independence and effectiveness of the internal audit function;
- advise on the reliability of the College's information systems;
- ensure that effective risk management processes are embedded within the college;

- provide a sounding board for College management on issues of concern in relation to the College's internal control systems; and
- contribute to the maintenance or increasing of public confidence in the quality of the College's corporate governance and management.

The Committee and its chair shall be appointed by the Governing Body, from among its own members, and in line with the Articles of Government and Instrument of Government. There shall be no fewer than four members; a quorum shall be at least three members. The chair of the Governing Body cannot be a member, or chair of, the Audit and Risk Committee.

### **Attendance at Meetings**

The Audit and Risk Committee must meet at least 4 times a year, normally quarterly. Proceedings will be carried out in line with College standing orders. The Chair of the Audit and Risk Committee may convene additional meetings, as they deem necessary. A minimum of three members of the Audit and Risk Committee will be present for the meeting to be deemed quorate.

The principal, head of finance (or equivalent), the head of internal audit, and a representative from the NIAO shall normally attend meetings where business relevant to them is to be discussed. However, at least once a year the Committee should meet with the NIAO and the internal auditors without any officers present. A representative from the Department will normally attend all of the College's Audit and Risk Committee meetings circumstances permitting.

The Audit and Risk Committee may ask any other officials of the college to attend to assist it with its discussions on any particular matter and 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 Accounting Officer or Governing Body may ask the Audit and Risk Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

### **Authority**

The Audit and Risk Committee is authorised by the Governing Body to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee, and all employees are directed to co-operate with any request made by the Audit and Risk Committee.

The Audit and Risk Committee will review the audit aspects of the draft annual financial statements. These aspects will include the Comptroller and Auditor General's opinion, the statement of members' responsibilities, the statement of internal control and any relevant issue raised in the NIAO's 'Report to Those Charged with Governance'. The Committee should, where appropriate, confirm with the internal auditors and the NIAO

that the effectiveness of the internal control system has been reviewed, and comment on this in its annual report to the Governing Body.

## **Rights**

The Audit and Risk Committee may:

- draft in an advisor for a period not exceeding one year to provide specialist skills, knowledge and experience subject to the approval of the Chair/Governing Body. Any individual recruited for this purpose would not have the status of a member appointed to the Governing Body (no voting rights);
- procure specialist ad-hoc advice at the expense of the college organisation, subject to budgets agreed by the Accounting Officer/ Governing Body.

However, it may not incur direct expenditure in this respect without the prior approval of the Governing Body which must be within the guidelines for procurement.

## **Access**

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

## **Duties**

The duties of the Audit and Risk Committee should include advising the Accounting Officer and Governing Body on:

- the strategic processes for risk, control and governance and the Governance Statement;
- the accounting policies, the accounts, and the annual report of the college 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 NIAO;
- the planned activity and results of both Internal Audit and NIAO;
- adequacy of management response to issues identified by audit activity, including NIAO's Report to Those Charged with Governance;
- assurances relating to the management of risk and corporate governance requirements for the college organisation;
- (where appropriate) proposals for tendering for Internal Audit services;
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations;

- the Audit and Risk Committee will also periodically review its own effectiveness and report the results of that review to the Governing Body;
- keeping the processes for ensuring the effectiveness of the financial and other internal control systems under review;
- advising the Governing Body on the provision of any non-audit services provided by any professional body, approved by the Department;
- discussing if necessary with the NIAO, before the audit begins, the nature and scope of the audit;
- discussing with the NIAO problems and reservations arising from the interim and final audits, and any other matters the NIAO may wish to discuss (in the absence of management where necessary);
- review the issues arising in the NIAO's 'Report to Those Charged with Governance' and management's response;
- advising the Governing Body on the criteria for the selection and appointment of the internal audit service;
- reviewing the scope and effectiveness of internal audit's work including planning and operation of the work and the internal audit annual report;
- ensuring that the College has efficient and effective procedures in place so as to ensure that statistical returns are accurate, timely and prepared in accordance with agreed procedures;
- ensuring that the College has systems and procedures to promote economy, efficiency and effectiveness - this may require identifying specific value for money studies;
- considering the College's annual financial statements [after review by the Finance Committee] and prior to submission to the Governing Body, focusing in particular on any changes in accounting policy, major judgmental areas, significant audit adjustments, the going concern assumption and compliance with accounting standards and the Accounts Direction;
- reviewing relevant reports from the Department, NIAO and other organisations;
- monitoring and reporting annually on the performance and effectiveness of the NIAO and internal audit; and
- monitoring and reporting on the implementation of agreed audit-based recommendations, from whatever source.

The Audit and Risk Committee should ensure that all significant losses and instances of fraud or theft have been properly investigated and that the internal auditors, NIAO and the Department have been fully informed of the matter in line with relevant procedures.

## **Reporting Procedures**

The Audit and Risk Committee should circulate the minutes of its meetings to the Governing Body, college Accounting Officer and to the Department.

The Department must be advised in advance, the time, date and location of all meetings and provided with an agenda of all items for discussion.

The Committee will produce an annual report by the deadline set out in the annual timetable of returns which it will submit to the Governing Body, college Accounting Officer and the Department. The Audit and Risk Committee's report will provide an opinion on the adequacy and effectiveness of the College's arrangements for the following:

- risk management, control and governance (the risk management element includes the accuracy of the governance statement included with the annual statement of accounts);
- the NIAO's 'Report to Those Charged with Governance';
- the internal auditor's annual report;
- any value for money exercises and any other relevant reports; and
- assessment of internal audit's performance in year against appropriate performance measures that had been previously approved by the Audit and Risk Committee.

The report should include and refer to the findings of the internal auditors and NIAO relating to the relevant reporting period, or an update on issues raised where this is not possible, due to timing.

## **Information Requirements**

For each meeting the Audit and Risk Committee will be provided (well ahead of the meeting) with:

- a report summarising any significant changes to the college's strategic risks and a copy of the strategic/corporate Risk Register;
- a progress report from the Head of Internal Audit summarising:
- work performed (and a comparison with work planned);

- key issues emerging from the work of internal audit;
- management response to audit recommendations;
- changes to the agreed Internal Audit plan; and
- any resourcing issues affecting the delivery of the objectives of Internal Audit;
- a progress report (written/verbal) from the NIAO representative summarising work done and emerging findings (this may include, where relevant to the college organisation, aspects of the wider work carried out by the NIAO, for example, Value for Money reports and good practice findings);
- any management assurance reports; and
- reports on the management of major incidents, “near misses” and lessons learned.

As and when appropriate the Committee will also be provided with:

- proposals for the terms of reference of Internal Audit/the Internal Audit charter; the Internal Audit strategy;
- NIAO’s Audit Strategy;
- the Head of Internal Audit’s Annual Opinion and Report;
- quality assessment reports on the Internal Audit function;
- the draft accounts of the college;
- the draft Governance Statement;
- a report on any changes to accounting policies;
- NIAO’s Report to Those Charged with Governance;
- a report on any proposals to tender for audit functions;
- a copy of the report of every Internal Audit assignment;
- a report on co-operation between Internal Audit and NIAO; and
- the college’s Risk Management strategy.

The above list suggests minimum requirements for the inputs which should be provided to the Audit and Risk Committee. In some cases more may be provided. For instance, it might be agreed that Audit and Risk Committee members should be provided with a copy of management Stewardship Reports (or equivalents) if these are used in the college.

## **Example Core Work Programme – Audit and Risk Committee**

### **Autumn Meeting**

- Comment on the annual report and accounts for the year just finished prior to their finalisation and submission for audit;
- Consider the interim NIAO findings or update report;
- Advise on the content of the Governance Statement for the year just finished, to be presented alongside the finalised accounts;
- Review the Internal Audit plan for the forthcoming financial year; and
- Agree the Audit and Risk Committee's annual report to the Accounting Officer and Governing Body.

### **Winter Meeting**

- Review and consider the accounts;
- Consider the (emerging) NIAO opinion (Report to Those Charged with Governance) for the financial year just finished and advise the Accounting Officer on signing the accounts and Governance Statement;
- Consider Internal Audit's opinion for the financial year just finished; and
- Discuss the implications of the result of the Accounting Officer's review of effectiveness of the system of control in relation to the Governance Statement.

Some Audit and Risk Committees choose to have an additional meeting timed to deal with business other than the annual report and accounts.

### **Spring Meeting**

- Consider mid-year report on emerging findings from Internal Audit;
- Consider the NIAO Report to Those Charged with Governance for the previous year, any emerging findings from the current interim/in-year work of NIAO;
- Consider the NIAO strategy proposed in respect of the current year's accounts; and
- Consider any residual actions arising from the previous year's work of both Internal Audit and NIAO.

## **Summer Meeting**

- Review and challenge the internal audit strategy and the periodic work plan for the beginning of the new financial year;
- Consider the Audit Strategy from NIAO (if not done at spring meeting);
- Review the overall Assurance Framework;
- Consider areas in which the Committee will particularly promote co-operation between auditors and other review bodies in the coming year;
- Re-visit emerging findings from auditors and review actions in response to NIAO Report to Those Charged with Governance; and
- Consider the Committee's own effectiveness in its work.

These are all in addition to regular standing items, e.g. minutes, conflict of interest declarations, review of corporate risk register, fraud reviews and whistleblowing reviews.

## Key Questions for an Audit and Risk Committee to Ask

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 an Audit and Risk Committee ensure that their work is comprehensive.

On the strategic processes for risk and control, how do we know that:

- the risk management culture is appropriate?
- the Governing Body has clearly articulated and communicated its risk appetite?
- there is a comprehensive process for identifying and evaluating risk, and for deciding what levels of risk are tolerable?
- the Risk Register is an appropriate reflection of the risks facing the college?
- there is appropriate ownership of risk in place?
- management has an appropriate view of how effective the control environment is?
- risk management is carried out in a way that really benefits the college or is it treated as a box ticking exercise?
- the college as a whole is aware of the importance of risk management and of the college’s risk priorities?
- the system of control will provide timely indicators of things going wrong?

On risk management processes, how do we know:

- how senior management and the Accounting Officer support and promote risk management?
- how well people 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 the college’s processes incorporate effective risk management?
- if risks are handled well, considering:
  - key strategic risks can change very quickly?
  - scenario planning and stress testing?

- 'bubbling under' risks?
- the 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 Internal Audit work, how do we know that:

- the Internal Audit strategy is appropriate for delivery of reasonable assurance on the whole of governance, risk management and control?
- the Internal Audit plan will achieve the objectives of the Internal Audit strategy, and in particular whether it is adequate to facilitate reasonable assurance on the key risks facing the college?
- Internal Audit has appropriate resources, including skills, to deliver its objectives?
- 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)?
- Internal Audit recommendations that have been agreed by management are actually implemented?
- any issues arising from line management not accepting Internal Audit recommendations are appropriately escalated for consideration?
- 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?
- there is appropriate co-operation between the Internal Audit and NIAO?
- the Accounting Officer and Governing Body 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 risk of cyber security, how do we now that:

- there is sufficient assurance that the organisation is properly managing its cyber risk, including having appropriate risk mitigation strategies?

- the organisation has properly identified and evaluated the cyber security risk?
- there are proper governance arrangements and controls to protect from, detect and respond to cyber security attacks/incidents?
- the organisation has suitably skilled and experienced staff, or access to such staff to deal with incidents?
- there is suitable awareness and ongoing training within the organisation on the risk from cyber attack?
- The organisation's Senior Information Risk Owner (SIRO) is a key source of information on these issues?

On the organisation's whistleblowing arrangements, how do we know that:

- there are appropriate and effective whistleblowing practices in place?
- these provide suitable channels for staff and others to raise their concerns?
- the policies appropriately cover the issues on confidentiality and anonymity?
- that whistleblowers are offered appropriate support and provided with suitable and timely feedback?
- that concerns raised are dealt with properly and reported to senior management?

On financial management, the accounting policies, the accounts, and the annual report of the college, do we know:

- how effective and accurate budgeting and in-year forecasting is?
- if the finance section 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?
- there has been due process in preparing the accounts and annual report and that process is robust?
- that the accounts and annual report have been subjected to sufficient review by management and by the Accounting Officer and/or Governing Body?

- that when new or novel accounting issues arise, appropriate advice on accounting treatment has been gained?
- that there is an appropriate anti-fraud policy in place and that losses are suitably recorded and responded to?
- 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 college 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 NIAO 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?
- 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 college and the annual Governance Statement, how do we know that:

- corporate governance arrangements operate effectively and are clear to the whole college?
- the Accounting Officer's Governance Statement is meaningful, and that robust evidence underpins it?
- the Governance Statement appropriately discloses action to deal with material problems?
- the Governing Body 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 Audit and Risk Committee itself, how do we know:

- that we are being effective in achieving our terms of reference and adding value to the corporate governance and control systems of the college?
- that we have the appropriate skills mix?
- that we have an appropriate level of understanding of the purpose and work of the college?
- that we have sufficient time to give proper consideration to our business?
- that our individual members are avoiding any conflict of interest?
- what impact we are having on the college?

*(Further guidance on Governance Statements is available in "Managing Public Money NI : Annex 3.1 )*

### Competency Framework

All members of the Audit and Risk Committee should have, or acquire as soon as possible after appointment:

- understanding of the objectives of the college and its current significant issues and risks;
- understanding of the college's structure, including governance arrangements and key relationships such as that with the Department for the Economy;
- understanding of the college's culture;
- understanding of any relevant legislation or other rules governing the college; and
- broad understanding of the government environment, particularly accountability structures and current major initiatives.

The Audit and Risk Committee should corporately possess:

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

**Model Audit and Risk Committee Report: FE Colleges**

The Audit Code requires each college Audit and Risk Committee to prepare an annual report for submission to its own Governing Body and subsequently to the Department. The Audit and Risk Committee annual report should be supported by the internal audit annual report which would therefore normally accompany it and the NIAO Report to Those Charged with Governance. The annual report should be prepared as early as possible after the end of each financial year, with the aim of it being available before the annual financial statements are signed. The report should be signed and dated by the chair of the committee. This model indicates what could be included in the report.

<b>Title</b>	Full name of college, Audit and Risk Committee Annual Report, financial year. Addressed to Governing Body and designated officer.
<b>Introduction</b>	Period covered; this should specifically relate to the Audit and Risk Committee's work on the relevant financial year. However, any additional issues should be covered where appropriate, particularly if they affect the opinion, for example where the previous year's annual report could not include something due to timing, or issues have arisen after the year end.
<b>Membership</b>	Names; details of changes and dates thereof; terms of office; identify chair; also separately give details of the secretary to the committee. Confirmation that no member sat on Finance & General Purposes Committee.
<b>Meetings</b>	Dates of meetings and note of attendees.
<b>Terms of reference</b>	If applicable, details of changes and their effect on the work of the committee.
<b>Internal audit</b>	<ul style="list-style-type: none"> <li>• Name of provider; details of any changes made or due; fee basis; Audit and Risk Committee's assessment of performance for the year (including the use of performance measures and obtaining the views of the NIAO).</li> <li>• Review of appointment.</li> <li>• Review of the internal audit annual report (which may be attached to the Audit and Risk Committee annual report); achievement of planned work; consideration of and comment on internal auditors' overall opinion on risk management, control and governance arrangements, and VfM arrangements, as necessary.</li> <li>• Review of audit risk assessment and strategy as appropriate. Number of audit days last year/next year (compare); inclusion of VfM studies.</li> <li>• Details of any restrictions placed on the work of the internal auditors.</li> <li>• Review of audit reports (this may appropriately focus on only the more significant issues); Audit and Risk Committee's view of management responses to the findings and recommendations; details of any significant recommendations outstanding.</li> <li>• Review of unplanned or special reports; Audit and Risk Committee's view of management responses to the findings and recommendations; details of any significant recommendations outstanding.</li> <li>• Review of VfM studies; summary of important findings and recommendations.</li> </ul>

<b>External audit</b>	<ul style="list-style-type: none"> <li>Review of the NIAO's Audit Strategy and consideration of the NIAO's 'Report to Those Charged with Governance' (RTTCWG) (draft and final versions where appropriate); significant points arising; Audit and Risk Committee's view of management responses to the findings and recommendations.</li> </ul>
<b>Other work done</b>	<ul style="list-style-type: none"> <li>Where undertaken, review of specific parts of the annual accounts (preferably between finance committee and the Governing Body) including members' responsibility and statement of internal control, any relevant issue raised in the RTTCWG and the NIAO formal annual opinion.</li> <li>Review of the risk management strategy of the college.</li> <li>Other work such as special reports or investigations arising not dealt with elsewhere (for example on actual or suspected fraud or irregularity); review of relevant NIAO and other reports; other formal certificates or returns seen; issues arising on trusts, joint ventures, subsidiary or associated companies; other VFM work such as a review of VFM strategy; recommendations made not dealt with elsewhere.</li> </ul>
<b>Other</b>	Issues not relevant to the reporting year, such as forthcoming events and issues relating to prior years.
<b>Self Assessment</b>	Confirmation that the committee has carried out a formal review of its performance throughout the year.
<b>Opinion</b>	<p>The Audit and Risk Committee's opinion on the adequacy and effectiveness of the college's arrangements for the following:</p> <ul style="list-style-type: none"> <li>risk management, control and governance (the risk management element includes the accuracy of the statement of internal control included with the annual statement of accounts)</li> <li>the NIAO's RTTCWG;</li> <li>the internal auditor's annual report;</li> <li>any value for money exercises and any other relevant reports;</li> <li>the accuracy of statistics, particularly those used in the determination of the allocation of resources; and</li> <li>assessment of internal audit performance in year against appropriate key performance indicators that had been previously approved by the Audit and Risk Committee.</li> </ul> <p>These opinions should be based on the information presented to the committee.</p>
<b>Circulation</b>	Copy to the Department once approved by the Governing Body.

\_\_\_\_\_ Chair of the Audit and Risk Committee  
 \_\_\_\_\_ Date