**A Good Practice Self-Evaluation Tool for the Audit Committee**

*The audit committee is a governance group, independent of management, charged with providing oversight of the adequacy of the risk management framework, the internal control environment, and the integrity of financial reporting[[1]](#footnote-1).*

**Introduction**

Academies, colleges and universities receive significant public funding and it is of paramount importance that they adhere to the highest standards of governance. Audit committees are responsible for forming an opinion and reporting on the internal control and financial reporting arrangements within an institution. As such, they play an essential part in the governance process. Further and higher education institutions are required to appoint an audit committee by their memorandum of assurance and accountability; financial memorandum or funding agreement with their funding body. Academies, depending on their circumstances, are required by the *Academies Financial Handbook* either to establish a dedicated audit committee or ensure that an existing committee covers the functions of an audit committee ( see below).

The audit self-evaluation tool is intended to help audit committee members assess the effectiveness of their own committee and will also provide a useful basis for future actions. Institutions may find that not all the questions are directly applicable to their circumstances - for example, Scottish further education colleges do not appoint their external auditors – and this will need to be taken into account when using the self-evaluation tool.

**Regulatory background**

The funding bodies may make specific requirements for the operation of audit committees in their sectors including :

* + Membership
  + Regularity of meetings
  + Terms of reference and duties.

The documents detailing sector specific requirements are listed on page four of this briefing. It is essential that committee members are aware of the documents relevant to them and to their content.

The situation with regard to audit committees in academies is different to that for colleges and universities. The *Academies Financial Handbook 2016* notes that :

“….taking into account the differing risks and complexity of their operations:

• all trusts with an annual income over £50 million **must** have a dedicated audit committee

• all other trusts have flexibility to establish either a dedicated audit committee, or to include the functions of an audit committee within another committee. “

In some academies, therefore, the role of the audit committee is combined with that of the finance committee. Similarly, some small institutions do not have a finance committee and the governing body undertakes this role. In such instances, there may be members of the audit committee present when issues associated with the finance committee role are being discussed. In both such cases, the potential for conflicts of interest need to be very carefully thought through and addressed appropriately.

**Audit committees responsibilities : overview**

A brief description of an audit committee’s key responsibilities is set out below :

* providing assurance to the governing body on the effectiveness of :
  + arrangements for control, governance and risk management
  + arrangements for economy, efficiency and effectiveness
  + management of data quality
* overseeing the institution’s policy on fraud
* advising the governing body on the appointment and remuneration of external auditors and (where appropriate) internal audit and their performance and scope
* considering and advising the governing body on the audit aspects of the financial statements including the external auditor’s opinion and monitoring management action in response to issues raised by external audit.

**Benefit of a good audit committee**

Effective audit committees bring many benefits to the academies, further and higher education sectors. They:

* reduce the risk of illegal or improper acts and help ensure the institution’s compliance with laws and regulations
* make an important contribution to ensuring that effective assurance arrangements are in place
* reinforce the objectivity, importance and independence of internal and external audit and therefore their effectiveness, as the audit function comes under scrutiny in a high level arena and has to respond accordingly
* increase public confidence in the objectivity and fairness of financial and performance reporting and in the quality of the institution’s governance
* seek to ensure that value for money is being obtained
* help improve the adequacy and effectiveness of risk assessment, risk management and internal control
* provide advice to the accounting officer or equivalent (normally the principal/vice-chancellor/chief executive)
* provide a channel for the institution’s auditors to communicate directly with members of the governing body/board of trustees.

Strict internal control and the establishment of an audit committee can never eliminate the risks of serious fraud, misconduct or misrepresentation of the financial position. However, an audit committee:

* gives additional assurance through a process of independent and objective review
* raises awareness of the need for sound control and the implementation of recommendations by internal and external audit
* offers a route for a ‘whistle blower’ to report irregularities.

**The self-evaluation tool**

The self-evaluation tool is a questionnaire that looks at the following themes that underpin the effectiveness of an audit committee:

* The **role of audit committee members**
* Their **skills and expertise**
* **Behavioural and operational aspects** of the committee
* The **information and support** provided to audit committee members
* The **activities and functions** undertaken by audit committee members
* The **review** of the committee’s effectiveness.

Each question included in the evaluation tool provides an opportunity to reflect on a particular aspect of the audit committee’s operation and on the institution’s practice and performance, resulting in an assessment of areas for development. In general, negative assessment against the question posed should result in some consideration of the impact of the assessment on the system of governance. It may lead to appropriate action for further developing this aspect of the institution’s arrangements.

The judgement can be expressed as a score from 1 – 3 based on the response to the question where:

1. No, not at all
2. Yes, partly
3. Yes, strongly.

# Using the self-evaluation tool in practice

The tool can be used in a number of ways, by:

* audit committee members singularly or jointly to assess their own performance
* chief financial officers to assess the adequacy of the institutions arrangements
* clerks to the audit committee to assess the adequacy of the institutions arrangements
* internal auditors.

The tool poses various questions which in formulating assessments require both subjective and objective responses, the degree of subjectivity or ‘opinion’ varies between questions – so the tool could be completed by the groups above and give varying responses for the same institution. This itself is a strength of the tool as it allows those with different responsibilities to reflect their judgement in an assessment.

Where committee members are using the tool, it is important that the chair of the audit committee agrees the arrangements for its use and that the forum is one that allows them to feel free to express their views. It therefore may be appropriate for members to meet without officers of the institution to review the questionnaire and then feed back the issues they have identified for future development to the clerk and chief financial officer.

If agreed with the chair of the committee, it may be appropriate for the clerk or chief financial officer to pre complete some aspects of the questionnaire with some of the factual aspects of the institution’s arrangements (eg training arrangements for new committee members) but ensuring that drawing conclusions on the effectiveness should be left to committee members.

**Frequency of use**

It is recommended that the tool is used as part of a cycle of governance effectiveness review and ideally should be considered on at least a three year cycle. In addition, the tool can be used when establishing new or revised arrangements by clerks and chief financial officers to evaluate models prior to their implementation and may prove useful for internal auditors as part of reviews of governance arrangements.

**Documents**

*Higher education*

Memorandum of Assurance and Accountability between HEFCE and institutions (July, 2016/12)

Financial Memorandum with Higher Education Institutions (SFC, 2014)

Memorandum of Assurance and Accountability (HEFCW, W15/32HE)

Higher Education Code of Governance (CUC, 2015)

Scottish Code for Higher Education Governance (CSC, 2013)

*Further education*

The Financial Memorandum (Further Education Colleges) (SFA 2016 to 2017)

Conditions of Funding Agreement ( EFA, 2016 to 2017) (Sixth Form Colleges)

Joint Audit Code of Practice (JACOP) (EFA/SFA, 2015)

Financial Memorandum with Fundable Bodies in the College Sector (SFC, 2014)

Financial Memorandum between the Welsh Government, Further Education Institutions and Higher Education Institutions Providing Further Education (Welsh Government, 160/2015)

Further Education Audit Code of Practice (Welsh Government, 008/2015)

*Academies*

Academies Financial Handbook (EFA, 2016)

**Further guidance**

A Model Set of Financial Regulations for Academies, Colleges and Universities (CIPFA)

Understanding Strategic Risk Management in Academies and Further Education Colleges (CIPFA)

Handbook for Finance Committee Members in Academies, Colleges and Universities (CIPFA).

**A GOOD PRACTICE SELF-EVALUATION TOOL FOR THE AUDIT COMMITTEE**

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Ref** | **Good practice** | **Evaluation**  **level 1 to 3** | **Further action required ?**  **Y/N** | **Evidence for assessment and improvement actions** |
| 1  2  3  4  5  6  7  8  9  10  11  12  13  14  15  16  17  18  19  20  21  22  23  24  25  26  27  28  29  30  31  32  33  34  35  36  37  38  39  40  41  42  43  44  45  46  47  48  49  50  51  52  53  54  55  56  57  58  59  60  61  62  63  64  65  66  67  68  69  70  71  72  73  74  75  76  77  78  79  80  81  82  83  84  85  86  87  88  89  90  91  92  93  94  95  96 | **Role of audit committee members**  Does the audit committee have written terms of reference (TOR)?  Are the TOR adopted by the governing body and reviewed periodically ?  Does the role and operation of the audit committee comply with funding body requirements ?  Is the role and purpose of the audit committee understood and accepted across the institution?  Is the audit committee’s role clear in respect of other committees with responsibility for financial matters within the institution ?  Are the audit committee’s authorities  properly constituted and specified in the  institution’s financial regulations ?  Do the audit committee members  clearly understand their roles and responsibilities ? Do they understand the part they play individually ?  Do the committee members clearly understand the interface between the committees with financial responsibilities including the audit committee and the finance committee, and with the governing body and how they relate to each other ?   |  | | --- | | Is the audit committee’s role defined  in respect of the following ? | | * good governance * assurance * risk management and internal control * internal audit * external audit * financial reporting * value for money . | |  |   **Skills and expertise**  Do the audit committee members have the right skills and expertise to enable them to challenge effectively ?  Are there any qualified accountants amongst the members ?  Does the committee have an appropriate mix of knowledge and skills among the membership ?  Does the chair of the committee have appropriate knowledge and skills?  Do the committee members demonstrate appropriate commitment ?  Do members understand the financial regime in which the institution operates ?  Are the audit committee members familiar with, and do they understand, their institution’s financial memorandum or funding agreement and articles of government  **Behavioural and operational aspects**  Does the audit committee meet regularly eg termly ?  Are audit committee meetings scheduled in good time in respect of important decisions and financial deadlines ?  Are members attending meetings on a regular basis and if not is appropriate action taken ?  Is an audit committee meeting scheduled to discuss proposed adjustments to the accounts and issues arising from the audit where appropriate?  Is the timing of audit committee’s meetings discussed with all the parties involved?  Has each member declared his or her business interests ?  Is the register of interests checked on a regular basis ? Is the register easily accessible ?  Are audit committee members independent of the management team and other committees ?  Are there at least three members of the governing body on the committee ?  Do co-option arrangements include the involvement of the governing body’s search or nominations committee ?  Are arrangements in place to rotate governing body membership ?  Are all the committee members fully engaged and participative in meeting discussions ?  Do the audit committee members ask ‘tough questions’ ?  Does the audit committee demonstrate an independent and challenging approach to its role ?  Does the committee have good working relations with key people and organisations, including external audit, internal audit and the chief financial officer?  Does the audit committee hold periodic private discussions with the chief internal auditor?  Does the audit committee hold periodic private discussions with the external auditor?  Do the audit committee members draw and reflect on their experiences of other organisations in discussions ?  Do the audit committee members have access to the chief financial officer and vice versa ?  Does the chief financial officer attend meetings of the audit committee ?  Are the activities of the audit committee reported to the governing body after each meeting ?  Does the audit committee produce an annual report for the governing body?  **Information and support**  Are there appropriate training and induction procedures for the audit committee members ?  Does the audit committee have an independent secretary/clerk ?  Do the clerking arrangements for the audit committee ensure that the members’ time is used effectively ? eg :   * is there a good reason for each item being on the agenda ? * Are all papers circulated sufficiently in advance ( and none tabled ?) and distributed in sufficient time for members to give them due consideration? * Do the reports prepared for the audit committee members make it clear what they are being asked to do/agree ?   Does the audit committee have a mechanism to keep them aware of topical legal and regulatory issues and institutional developments, for example, by receiving circulars, training or briefing papers ? Are they briefed on significant changes ?  Do the audit committee members receive reports that are comprehensive but concise and tailored to their needs ? Is the information they receive robust and objective ?  Has the audit committee considered the information it wishes to receive from internal audit?  Does the audit committee receive periodic reports from the internal audit service?  Are audit committee members encouraged to increase their familiarity with risk management, control and governance issues by visiting various departments within the institution ?  **Activities and functions**  *Governance*  Does the audit committee’s TOR include oversight of governance arrangements?  Does the audit committee provide support to the institution in meeting the requirements of good governance?  Does the audit committee oversee an assessment of the governance arrangements of the institution and advise the governing body on their effectiveness ?  Does the audit committee consider whether the annual governance statement reflects the institution’s risk environment ?  Does the audit committee consider whether the annual governance statement demonstrates how the institution’s governance arrangements support its objectives ?  Does the audit committee consider reports and recommendations from external audit and regulators/agencies as appropriate and their implications for governance, risk management and control ?  Does the audit committee monitor arrangements for ensuring value for money and for managing exposure to the risk of fraud and corruption ?  Does the audit committee scrutinise and challenge the finance committee effectively ?  Is the audit committee’s role in relation to whistle blowing clear ?  Is the audit committee’s role in relation to the institution’s fraud and corruption procedures clear ?  *Assurance*  Does the audit committee seek to ensure that assurance is planned and delivered ?  Does the audit committee understand what assurance is available to support the annual governance statement ?  Does the audit committee seek clarity regarding what assurance is required ?  Does the audit committee gain assurance that the institution’s risk management, control and governance arrangements are adequate and effective?  *Risk management*  Does the audit committee’s TOR include oversight of risk management processes ?  Does the audit committee keep risk management on its agenda throughout the year ?  Does the audit committee monitor how the institution assesses risk ?  Does the audit committee review the institution’s risk register on a regular basis ?  Is the committee made aware of the role of risk management in the preparation of the audit plan ?  *Internal audit*  Does internal audit have a direct reporting line to the audit committee?  Does the audit committee approve, annually and in detail, the internal audit strategic and annual plans ?  Are follow up audits by internal audit monitored by the audit committee ?  Does the committee consider the adequacy of implementation of internal audit recommendations?  Does the audit committee receive regular progress reports from the internal audit service summarising internal audit activity ?  Do the reports describe major audit issues and compare activity to date against the audit plan?  How does the audit committee ensure that a professional relationship is maintained between internal and external audit ?  Does the audit committee review the adequacy of internal audit staffing and other resources ?  Has the audit committee evaluated whether its internal audit service complies with the Government Internal Audit Standards?  Does the audit committee, in conjunction with the internal audit service and management, have a role in establishing and maintaining appropriate performance indicators to measure the work of the internal audit service ?  Are audit committee members aware of the key issues to take into account when selecting or reviewing their internal audit function ?  *External audit*  Are follow up audits by external audit monitored by the audit committee ?  Does the committee consider the adequacy of implementation of external audit recommendations?  Does the audit committee seek the views of senior managers, the CFO, vice chancellor/principal/chief executive and internal audit service when considering whether to recommend the external auditors for reappointment ?  Do the external auditors present their audit plans and strategy to the audit committee for review?  Does the audit committee assess the performance of external audit?  Is the audit committee clear regarding its role in the rare event of external audit qualifying the institution’s financial statements ?  Are audit committee members aware of the key issues to take into account when selecting or reviewing external audit ?  *Financial reporting*  Does the audit committee review the external auditor’s management letter when considering the institution’s financial statements ?  Do the institution’s financial statements include a description of the audit committee’s establishment and activities ?  Does the audit committee consider whether the financial statements satisfy all statutory and regulatory requirements to which the institution is subject ?  Is the role of the audit committee with regard to the financial statements compatible/clear/ consistent with that of the finance committee ?  Does the audit committee review the financial statements, external auditor’s opinion and reports to members, and monitor management action in response to the issues raised by external audit ?  *Value for money*  Does the audit committee include reference to its responsibility for overseeing value for money arrangements in its annual report to the governing body ?  **Review**  Does the audit committee assess its performance and effectiveness on a regular basis ?  Do the members assess how they could carry out their business more effectively ? eg improved meeting time table  Are there KPIs in place against which the members can assess their performance ?   |  |  | | --- | --- | |  | | |  |  |  |  |  | | --- | --- | | Has the audit committee evaluated  whether and how it is adding value to the  institution?    Does the audit committee have an action plan  to improve any areas of weakness?  Has the committee obtained feedback on  its performance from those interacting  with the committee or relying on its work?  Does the audit committee  bench­mark its performance against good  practice for audit committees in its  sector and more widely as appropriate? | | |  |  | |  |  |  |

1. International Framework : Good Governance in the Public Sector (CIPFA, IFAC 2014) [↑](#footnote-ref-1)