

# Audit Committee

## Terms of Reference



Prepared for Audit Scotland's Audit Committee  
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Audit Scotland is a statutory body set up in April 2000 under the Public Finance and Accountability (Scotland) Act 2000. We help the Auditor General for Scotland and the Accounts Commission check that organisations spending public money use it properly, efficiently and effectively.

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# Terms of reference

## Introduction

1. The Board of Audit Scotland has established, in its Standing Orders, an Audit Committee as a committee of the Board to support it in the responsibilities for issues of risk, control and governance in connection with the matters referred to in this document.

## Membership

2. The Audit Committee will consist of (i) members of the Board, other than the Chair and Accountable Officer, and (ii) if considered appropriate other suitable persons co-opted by the Board.
3. The Audit Committee will be chaired by one of the non-executive members, appointed by the Audit Scotland Board.
4. The Audit Committee will be provided with a secretariat function by the Chief Operating Officer of Audit Scotland.
5. The Chair of the Board cannot also be the Chair of the Audit Committee.

## Reporting

6. The Audit Committee will formally report minutes of each meeting in writing to the Board and Accountable Officer and approved minutes will be published on the Audit Scotland website.
7. The Audit Committee will provide the Board and Accountable Officer with an Annual Report, timed to support finalisation of the Accountable Officer's governance statement, summarising its conclusions from the work it has done during the year.

## Responsibilities - General

8. The Audit Committee will advise the Board and Accountable Officer on:
  - The strategic processes for risk, control and governance supporting the Accountable Officer's governance statement.
  - The accounting policies, the Accounts and the Annual Report of the organisation, including the process for review of the Accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors.
  - The appointment of the internal auditors.
  - The planned activity and results of both internal and external audit, ensuring there is effective co-ordination between internal and external audit.
  - The adequacy of management response to issues identified by audit activity, including external audit's management letter/report.

- The effectiveness of the internal control environment (including references to internal and external audit reports and the 'three lines of defence' model).
  - Corporate governance requirements.
  - The budget needed to resource effective external and internal audit and other responsibilities of the Audit Committee.
  - The selection and terms of appointment of advisers and consultants as appropriate to the operation.
  - Disaster recovery and contingency plans which are in place and are tested regularly.
  - Anti-fraud policies, whistle-blowing processes and arrangements for special investigations.
  - The risk policy and strategy, including the organisation's risk appetite.
  - The arrangements for audit quality monitoring and arrangements.
9. The Audit Committee will periodically review its own effectiveness and report the results of that review to the Board and Accountable Officer. In addition, it will review, and where appropriate make recommendations to the Board on these terms of reference.

## Responsibilities – External Audit

10. Further to its general responsibilities in relation to external audit, the Audit Committee will:
- Obtain assurance that external audit recommendations, which have been endorsed by the Board or Audit Committee, are implemented by management of Audit Scotland as timetabled and presented at each meeting where still outstanding.
  - Discuss with the external auditor any problems, reservations or issues arising from the interim or final audit or other investigations.
  - Review and monitor the external auditor's independence and objectivity and annually appraise the effectiveness and value for money of the external audit service.
  - Develop, implement and monitor a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant guidance regarding the provision of non-audit services by the external audit firm.

## Responsibilities – Internal Audit

11. Further to its general responsibilities in relation to internal audit, the Audit Committee will:
- Consider and make recommendations to the Board on the internal audit arrangements, including the appointment, reappointment or otherwise, fees, methods and terms of engagement, of the internal auditor, whether on the organisation's payroll or outsourced.
  - Review and approve the internal audit needs assessment and strategy and the annual plan and monitor delivery of the plan, approving any changes during the year.
  - Review and approve the internal audit charter.

- Receive and consider reports by the internal auditor on significant audit findings together with the response from managers to these reports.
- Obtain assurance that internal audit recommendations, which have been endorsed by the Audit Committee, are implemented by management of Audit Scotland as timetabled.
- Review and annually appraise the effectiveness of the approach, nature and scope of internal audit activities and compliance with professional standards, good practice guidance and performance indicators.
- Monitor performance and best value by reviewing the economy, efficiency and effectiveness of operations.
- Receive and review the annual report from the internal auditor.

## Rights

12. The Audit Committee may:
- Co-opt additional members, with the permission of the Board, for a period not exceeding a year to provide specialist skills, knowledge and experience.
  - Invite executive management and/or staff from Audit Scotland to attend Audit Committee meetings to observe and/or provide additional information to the Committee.
  - Procure specialist ad hoc advice at the expense of Audit Scotland, subject to budgets agreed by the Board or Accountable Officer.

## Access

13. Appointed representatives of internal audit and external audit will have free and confidential access to the Chair of the Audit Committee.

## Meetings

14. The procedures for meetings are:
- The Audit Committee will meet at least 5 times a year. The core work programme is attached to these terms of reference. The Chair of the Audit Committee may convene additional meetings as he/she deems necessary.
  - A minimum of 2 members of the Audit Committee will be present for the meeting to be deemed quorate. The use of video or telephone conferencing by members will be deemed as attendance at the meeting.
  - The Chair, if present, will preside. If the Chair cannot be present the members must appoint one of the other members to preside at the meeting.
  - Audit Committee meetings will normally be attended by the Accountable Officer, the Chief Operating Officer, a representative of internal audit and, where appropriate, a representative of external audit.
  - The Audit Committee may ask any other officials of Audit Scotland to attend to assist it with its discussions on any particular matter.

- The Audit Committee may invite other interested parties to observe its meetings.
- The Audit Committee may ask any or all of those who attend, but who are not members, to withdraw to facilitate open and frank discussion of particular matters.
- The Board or Accountable Officer may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.
- At least annually the Audit Committee shall meet in closed session with the external and internal auditors.

## Information requirements

15. For each\* meeting the Audit Committee will be provided by management of Audit Scotland with:

- the Corporate Risk Register
- a report summarising any significant changes to the organisation's risk register
- a risk interrogation report
- a progress report from internal audit summarising:
  - work performed (and a comparison with work planned)
  - key issues emerging from internal audit work
  - management response to audit recommendations
  - any significant changes to the audit plan
  - any resourcing issues affecting the delivery of internal audit objectives.

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

- the internal audit strategy
- internal audit's annual opinion and report
- quality assurance reports on the internal audit function
- progress reports from external audit summarising work done and emerging findings
- the draft Accounts of the organisation
- the Accountable Officer's draft governance statement
- a report on any changes to accounting policies
- external audit's management letter/report
- a report on any proposals to tender for audit functions
- a report on co-operation between internal and external audit
- proposals for the terms of reference of internal audit
- a report on policy documentation reviews
- a report declaring any incidents of whistleblowing or data loss/DPA breach.

\* Note: The risk register, risk report and risk interrogation will not be submitted to the June Audit Committee meeting due to the short period of time between the May and June meeting. However, a

report will be presented indicating if any changes have arisen since the last report. The internal audit progress report will not be submitted to the May meeting due to the Audit Committee receiving the annual internal audit report.

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# Indicative checklist for Audit Committee meetings

## February Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Risk interrogation report.
- Review the internal audit strategy and the periodic work plan for the coming financial year.
- Consider external audit plans for the coming financial year.
- Consider any reports from internal audit and management responses.
- Consider progress on implementation of internal audit recommendations.
- Consider Q3 financial report, including relevant information about financial performance and achievement of financial targets.
- Review co-operation between internal and external audit.

## May Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Risk interrogation report.
- Consider any reports from internal audit and management responses.
- Consider internal audit opinion for the financial year just finished.
- Review the performance management arrangements adopted by the body including, where appropriate, the timetable for reviewing such arrangements.
- Consider assurances provided by senior staff.
- Consider a report on audit quality arrangements.
- Consider the Audit Committee's own effectiveness in its work, including feedback from the Audit Scotland Board and the Accountable Officer.

## June Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Review and consider the accounts for the financial year just finished.
- Consider progress on implementation of internal audit recommendations.

- Consider the external audit opinion and management letter for the financial year just finished and the response to/implementation of any recommendations.
- Consider assurances provided by senior staff.
- Consider annual reports by senior staff.
- Advise the Accountable Officer on signing the accounts and Statement on Internal Control.
- Consider any reports from internal audit and management response.
- Consider Q4 financial report, including relevant information about financial performance and achievement of financial targets.
- Consider an annual report from the Audit Committee to the Board and Accountable Officer.

## September Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Risk interrogation report.
- Consider any reports from internal audit and management response.
- Consider progress on implementation of internal audit recommendations.
- Consider Q1 financial report, including relevant information about financial performance and achievement of financial targets.
- Annual review of governance policies and Code of Conduct.

## November Meeting

- The Corporate Risk Register and a report summarising any significant changes to the register.
- Risk interrogation report.
- Consider any reports from internal audit and management responses.
- Consider progress on implementation of internal audit recommendations.
- Consider Q2 financial report, including relevant information about financial performance and achievement of financial targets.
- Consider Business Continuity report.
- Consider interim report on audit quality arrangements.
- Review and monitor the external auditor's independence and objectivity and appraise the effectiveness and value for money of the external audit service.
- Review the Audit Committee's Terms of Reference.

17. In addition the Chair of the Audit Committee will have a private meeting with the external auditors after completion of the audit to discuss any issues arising from the audit and seek feedback on the quality of co-operation and working papers received from Audit Scotland.