

To: The Board

For meeting on: 28 May 2014

Agenda item: 10

Report by: Keith Palmer, Audit and Risk Committee Chair

Report for: Information

TITLE: **Report of the Audit and Risk Committee meeting on 21 May 2014**

Summary:

This report provides the Board with an update on the key issues considered by the Audit and Risk Committee at its meeting on Wednesday 21 May 2014. The minutes of the meeting are attached at Annex A to this report, the Annual Report of the Audit and Risk Committee to the Board is attached at Annex B and the amended Terms of Reference considered by the Committee are attached at Annex C.

Recommendation:

The Board is asked to note the report and provide any comments.

Public Sector Equality Duty

Monitor has a duty under the Equality Act 2010 to have due regard to the need to eliminate unlawful discrimination, advance equality of opportunity and foster good relations between people from different groups. In relation to the issues set out in this paper, consideration has been given to the impact that the recommendations might have on these requirements and on the nine protected groups identified by the Act (age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, religion and belief, gender and sexual orientation).

As it is for information, it is anticipated that none of the recommendations of this paper will have an impact upon the requirements of or the protected groups identified by the Equality Act.

Exempt information:

None of this report is exempt from publication under the Freedom of Information Act 2000.

Background

1. The Chair of Audit and Risk Committee reports on its work to the Board after every meeting of the Committee. This report highlights the key issues considered by the Committee. The minutes of the meeting are attached as the annex to this report.

Issues

Monitor's 2013/14 Annual Account and Governance Statement

2. The Committee reviewed the pre-audit draft 2013/14 accounts and Annual Governance Statement (AGS). The draft annual report and AGS is provided elsewhere on the agenda for this Board meeting. The Committee was generally content with the draft accounts and AGS, only providing a few detailed comments.

Q4 Risk Report

3. The Q4 Risk Report is presented to the Board elsewhere on the agenda for this meeting. The Audit and Risk Committee is content with the progress being made in the development of Monitor's improved risk management process.

Internal Audit

4. The Committee noted one internal audit Report (Financial Systems and Procurement Review 2013/14) which was identified as low risk. An update was provided on the remaining internal audit work required to be completed ahead of the Internal Audit Opinion being issued for 2013/14. As there is a significant amount, Committee members will consider internal audit reports in correspondence and identify in advance any particular aspects that they wish to discuss in detail at the meeting of the Audit and Risk Committee on 2 July 2014.
5. Audit and Risk Committee members will be interviewing candidates for the role of Monitor's new Head of Internal Audit at the end of May, with a view to making an appointment by the end of the month. In order to avoid delay on the 2014/15 internal audit plan, work has already begun on planning the outline internal audit strategy.

Consolidated NHS Foundation Trust Accounts 2013/14

6. An update was provided to the Committee on the progress of the consolidation of the 2013/14 NHS foundation trust (FT) accounts and the audit of these by the National Audit Office (NAO). This work is progressing well.

Annual Report of the Audit and Risk Committee to the Board

7. The annual report of the Audit and Risk Committee to the Board is attached at Annex B to this report. This is based upon the outcomes of the self assessment workshop run by the Committee and facilitated by the NAO in March 2014. Board members are invited to review and comment on this report, which is prepared in conjunction with the draft AGS.

Audit and Risk Committee Terms of Reference

8. The Committee also looked at its Terms of Reference and a small number of proposed minor amendments to ensure that they remain up-to-date. The updated Terms of Reference are attached as Annex C to this report.

Keith Palmer
Audit and Risk Committee Chair

ANNEX A

MINUTES OF A MEETING OF THE MONITOR AUDIT AND RISK COMMITTEE HELD ON 21 MAY 2014 AT 10.00 AT WELLINGTON HOUSE, 133-155 WATERLOO ROAD, LONDON SE1 8UG

Present:

Keith Palmer, Audit and Risk Committee Chair, Non Executive Director
Sigurd Reinton, Non Executive Director

In attendance:

External Auditor – National Audit Office (NAO)

Martin Burgess, Audit Manager
Kate Mathers, Director

Monitor

David Bennett, Chief Executive
Jason Dorsett, Financial Reporting and Risk Director
Joan Hanham, Chairman
Philippa Harding, Board Secretary
Stephen Hay, Managing Director of Provider Regulation
Toby Lambert, Director of Strategy and Policy
Adrian Masters, Managing Director of Sector Development
Steven Murray, Head of Internal Finance

Executive officers attended the meeting as detailed under specific agenda items below.

1. Welcome and apologies

- 1.1 Apologies for absence had been received from Andy Sayers (Head of Internal Audit, KPMG) and Jo Sheppard (Internal Audit Manager, KPMG).

2. Declarations of interest

- 2.1 No interests were declared.

3. Minutes and matters arising from the meeting held on Wednesday 19 February 2014 (ARC/14/07)

- 3.1 The minutes were approved and the matters arising noted.

4. Monitor 2013/14 draft accounts and audit update (ARC/14/08)

- 4.1 Audit and Risk Committee members considered the report which accompanied Monitor's pre-audit 2013/14 draft annual accounts, setting out a summary of the main changes in the presentation of the draft accounts from 2012/13 and the key points to note.
- 4.2 Consideration was given to the fact that Monitor had chosen to divide its activities into four reportable segments (relating to Monitor's core running costs; contingency planning work (CPT); Trust Special Administration (TSA); and Special Measures). It was noted that these segments were used by the executive to manage and report expenditure throughout the year and so were required to be reflected in the annual financial statement.
- 4.3 The level of Monitor's cash and cash equivalent assets as at 31 March 2014 was discussed. It was noted that the organisation had to hold cash relative to the liabilities it faced with regard to trade and other payables. The difference between the organisation's current assets and current liabilities was not considered to be significant.
- 4.4 Committee members noted the report provided by the NAO with regard to the progress of the audit of the 2013/14 draft annual accounts, which summarised the key matters from the NAO's interim audit fieldwork visit. It was reported that the planned audit was expected to be completed in accordance with the original timetable and that the NAO had not identified any significant concerns. The Audit and Risk Committee discussed the minor issues that had been identified by the NAO during its audit work, including reconciliations with the general ledger. It was emphasised that a number of technical issues relating to the organisation's accounting system were in the process of being addressed. With regard to the allocation of ring-fenced budgets such as reimbursement costs for "Buddy Trusts" for those in Special Measures, it was proposed that an accounting policy should be drafted and further information be made available in the notes to the annual accounts.
- 4.5 Audit and Risk Committee members confirmed that they were content with the pre-audit 2013/14 draft annual account.

5. Monitor 2013/14 draft Annual Governance Statement (ARC/14/09)

- 5.1 The Audit and Risk Committee considered the report which accompanied Monitor's draft Annual Governance Statement. The Annual Governance Statement would be included with the 2013/14 annual report and accounts.
- 5.2 Subject to a number of minor drafting issues, Audit and Risk Committee members confirmed that they were content with the draft 2013/14 draft Annual Governance Statement.

6. Q4 Risk Report (ARC/14/10)

Das Mootanah (Risk and Performance Director) joined the meeting for the consideration of this item.

- 6.1 Audit and Risk Committee members considered the report which provided an update on the progress made in the fourth Quarter of 2013/14 (Q4) on the organisation's overall risk management framework, as well as covering the status of Monitor's current corporate risk profile as at the end of Q4.
- 6.2 The Committee considered the top five organisational risks identified in the report, together with the proposed mitigations. In particular, the Committee discussed the risks associated with Monitor's role in turning around troubled NHS foundation trusts (NHS FTs) and in relation to the financial challenges that were expected to face the NHS in the coming years.

Committee members emphasised the significance of these risks and the importance of the identified mitigations. The Committee was informed of further actions that Monitor was already undertaking to address these risks and those which it planned in the future. As well as working with the health care sector to enable trusts to realise appropriate productivity improvements, Monitor was also working with its regulatory partners to plan further how the best outcomes for patients could be achieved, should trusts face financial failure.

- 6.3 Audit and Risk Committee members noted the approach taken with regard to executive/directorate level risk reviews. Each directorate had assessed its own risk profile, with support and constructive challenge from the Risk and Performance Team, with material risks escalated for consideration.
- 6.4 With regard to the progress of and proposed priorities for the Risk and Performance Management team, the Committee was content. It was noted that the organisation's risk management policy was being reviewed and updated to ensure that it remained effective in identifying and managing risks. Audit and Risk Committee members were content that the proposed high level policy appropriately set the cross-organisational tone and culture for managing risks proactively. It was proposed that further reference should be made to the importance of operating the policy in line with the Board's appetite for risk. It was proposed that, in line with the further development of the organisation's risk management framework, the Board's risk appetite should be tested with regard to particular outcomes.

7. Internal audit progress update (ARC/14/11)

- 7.1 The Audit and Risk Committee noted the report which provided an update on the progress of internal audit work undertaken since the last meeting of the Committee.
- 7.2 It was noted that one of the draft internal audit reports that had been issued had remained unresolved for a significant period of time. Consideration was given to the possible reasons for this delay. The Committee was informed that all efforts were being made to conclude this report. In light of the fact that the Head of Internal Audit Opinion was to be presented at the next meeting of the Audit and Risk Committee, it was requested that all outstanding internal audit reports be circulated to the Committee for consideration in correspondence. Committee members would be asked to identify in correspondence any issues which they wished to address at the meeting on 2 July 2014.

ACTION: PH

- 7.3 Audit and Risk Committee members were provided with an oral update on the progress of the appointment of Monitor's new Head of Internal Audit. It was noted that candidates would be interviewed by the Committee, with a view to an appointment being made by the end of May 2014. Work had already begun on planning the outline internal audit strategy for 2014/15.

8. Internal Audit Review: Financial Systems and Procurement Review 2013/14 (ARC/14/12)

- 8.1 The Committee noted the report which set out the results of KPMG's internal audit review of Monitor's core financial systems and its procurement activity, together with the management responses to KPMG's Performance Improvement Observations (PIOs). Overall the report had been given a low risk rating, with 8 low priority PIOs.

9. Update on identified risks for Consolidated NHS Foundation Trust Accounts 2013/14 (ARC/14/13)

Eleanor Shirtliff (Sector Financial Accounting Manager) joined the meeting for the consideration of this item.

- 9.1 Jason Dorsett presented the report which provided an update on the risks associated with the preparation of the consolidated NHS FT accounts 2013/14. NAO representatives also provided an oral update on the audit of these accounts. It was noted that appropriate steps had been taken in order to manage the identified risks associated with the process and that nothing had come to the attention of the NAO to suggest that it would be unable to complete its audit as expected.
- 9.2 Audit and Risk Committee members considered the issues that had emerged in the preparation of the consolidated NHS FT accounts. In particular, the Committee discussed the relationship between the accounts and the unaudited figures provided by NHS FTs to Monitor in their final quarterly report of the 2013/14 financial year.

10. Annual Report of the Audit and Risk Committee to the Board (ARC/14/14)

- 10.1 Philippa Harding presented the report which included the draft report of the Audit and Risk Committee to the Board and asked the Committee to approve its content. It was noted that the report reflected the outcomes of the Audit and Risk Committee's self assessment workshop that took place in March 2014.

RESOLVED:

- 10.2 Subject to any detailed comments that might be provided in correspondence after the meeting, the Audit and Risk Committee resolved to approve the content of the Committee's Annual Report to the Board.

11. Any other business

- 11.1 It was noted that the non-executive director who had recently been appointed to Monitor's Board was to be asked to join the Audit and Risk Committee.

Close

ANNEX B

ANNUAL REPORT OF THE AUDIT AND RISK COMMITTEE TO THE BOARD

The role of the committee

1. The Committee supports the Board and the Chief Executive (as Accounting Officer) by reviewing the comprehensiveness, reliability and integrity of the assurances provided to the Committee regarding Monitor's internal controls, risk management and governance processes. On the basis of the assurance provided to it, the Committee forms an overall view on the state of risk management, governance and internal controls at Monitor, which it reports to the Board and the Accounting Officer.

Committee membership and attendance

2. The Committee comprises three members, appointed by the Board, on the recommendation of the Nomination Committee, in consultation with the Chair of the Board.
3. At least two members of the Committee shall be non-executive directors. These are Keith Palmer (Chair of the Committee) and Sigurd Reinton. The third member of the Committee should be either a non-voting member who is independent of the Monitor Board or another non-executive director. The Committee sought to recruit an independent member in 2013/14, but was unable to find an appointable candidate. This did not compromise the independence of the Committee in anyway, due to its non-executive membership. A new non-executive director has recently been appointed to Monitor's Board (Iain Osborne) and it is anticipated that he will be joining the Committee.
4. A number of Monitor officers are in regular attendance at each meeting of the Committee. These include David Bennett (Chief Executive and Accounting Officer), Adrian Masters (Managing Director of Sector Development), Toby Lambert (Director of Strategy and Policy), Jason Dorsett (Financial Reporting and Risk Director), Philippa Harding (Board Secretary) and Steve Murray (Head of Internal Finance). Monitor's internal audit providers (KPMG in 2013/14) and external audit providers (National Audit Office) also regularly attend Committee meetings.

Frequency of Committee meetings and agendas

5. The Committee meets five times a year at appropriate times in the reporting and audit cycle and otherwise as required. In 2013/14 the Committee met on the following dates:

Date of meeting	Attendance	Business
22/05/13	Keith Palmer Sigurd Reinton Martin Burgess Kate Mathers David Bennett Robert Davidson Philippa Harding Stephen Hay Adrian Masters Steven Murray	<ul style="list-style-type: none">• Monitor 2012/13 draft accounts• Draft Annual Governance Statement 2012/13• Monitor's risk register: Q4 2012/13• Monitor's Fraud Risk Profile - Finance• Monitor's Fraud Risk Profile - Data• Internal Audit Progress Update• Internal Audit Reviews:<ul style="list-style-type: none">• Transition Plan (Phase 3)• Financial Systems• Corporate Governance• Provider Regulation

		<ul style="list-style-type: none"> • Consolidated Programme Board Report • Internal Audit Progress Report on the 2012/13 CFT Financial Statement • Monitor banking arrangements • Audit and Risk Committee Independent Member • Annual Report of the Audit and Risk Committee to the Board
02/07/13	Keith Palmer Sigurd Reinton Martin Burgess Kate Mathers David Bennett Robert Davidson Jason Dorsett Philippa Harding Stephen Hay Steven Murray	<ul style="list-style-type: none"> • Human Resources Internal Audit Review • Assessment Internal Audit Review • Internal Audit Progress Report • Internal Audit Annual Report and Opinion • Monitor - Audit Completion Report 2012/13 financial statement audit • Monitor's 2012/13 Annual Report and Accounts • Consolidation of NHS FT Account - Audit Completion Report 2012/13 • NHS FTs: Consolidated accounts 2012/13
18/09/13	Keith Palmer Sigurd Reinton Andy Sayers Jo Sheppard Kate Mathers David Bennett Lisa Collins Jason Dorsett Stephen Hay Anna Lindsay-Taylor Steven Murray Nick Ville	<ul style="list-style-type: none"> • Internal Audit Strategy and Plan • Internal Audit Progress Report • Information security review • External Assurance on Information and IT Strategy • Q1 Interim Risk Report • Audit and Risk Committee Independent Member
20/11/13	Keith Palmer Sigurd Reinton Andy Sayers Jo Sheppard Martin Burgess Kate Mathers David Bennett Jason Dorsett Philippa Harding Toby Lambert Adrian Masters Steven Murray	<ul style="list-style-type: none"> • Internal Audit Progress Report • Audit Planning Report (Monitor) • Audit Planning Report (NHS FT) • Planned Assurances over Consolidated NHS FT Accounts • Q2 Risk Report • Annual Governance Statement and review of ARC's Effectiveness • Appointment of Head of Internal Audit
19/02/14	Keith Palmer Sigurd Reinton Andy Sayers Jo Sheppard Kate Mathers David Bennett Jason Dorsett Joan Hanham Philippa Harding Toby Lambert Steven Murray	<ul style="list-style-type: none"> • Internal Audit Progress Report • Appointment of Head of Internal Audit • Q3 Risk Report • Annual report of the Audit and Risk Committee to the Board • Update on Consolidated NHS Foundation Trust Accounts 2013/14

Oversight of external and internal audit

Internal Audit

6. In addition to regular review of internal audit reports by the current internal audit service provider, the Committee has been actively involved in the arrangements being made for the transfer of Monitor's internal audit service to the Department of Health (DH) Health Group Internal Audit Service. The Committee has received regular updates on progress with regard to the move to this service and will take the decision on the appointment of the Head of Audit in May 2014.
7. During 2013/14 the Committee considered the outcome of the following internal audit reviews which had been undertaken as part of the internal audit plan approved by the Committee:
 - i) Transition Plan (Phase 3)
 - ii) Financial Systems
 - iii) Corporate Governance
 - iv) Provider Regulation
 - v) Human Resources
 - vi) Assessment
 - vii) Information security review

External Audit

8. The Committee has reviewed and commented on the audit plans presented by the National Audit Office (NAO) with regard to both its audit of Monitor's financial statements and of the consolidated NHS foundation trust (NHS FT) account.

Risk Management

9. Monitor has been in the process of reviewing its risk management framework in 2013/14 and the Committee has played an active role in this, providing steer and challenge both in formal meeting and through individual conversations. Monitor held a Board Risk Workshop in order to identify the top risks faced by the organisation and Audit and Risk Committee members took a lead role in this.
10. The Committee had considered the effectiveness of Monitor's risk management framework and the assurances that it has received in relation to this. It has discussed the organisation's changing risk profile, its forward agenda and priorities for 2014/15, where it will need assurance and what the sources of assurance are. The view of the Committee is that the risk management framework and assurances are reasonable and appropriate for the challenges faced by the organisation. In its discussions, the Committee has noted that further work remains with regard to the ongoing development of the risk management framework and that additional work will be undertaken in 2014/15 with regard to further clarifying the organisation's changing control environment and assurance mapping.

Annual Report and Financial Statements

11. The Committee has tested the plans put in place for the production of Monitor's Annual Report and Financial Statements and the plans for their audit. Together with the Board, the Committee reviewed and constructively challenged the consistency of the draft Annual Report and Financial Statements, focussing specifically on the financial statements and the annual governance statement.

NHS Foundation Trust Consolidated Account

12. The Committee has taken an active role in the testing of assurance provided with regard to the compilation of the NHS FT consolidated account. It has reviewed the account in the same detail and with the same rigor that it applies to Monitor's own Financial Statements.

Assessment of the effectiveness of the Audit and Risk Committee in 2013/14

13. The Committee is committed to reviewing its own effectiveness. In 2013/14 it held a workshop to this effect, led by the NAO. The workshop focussed upon the five key principles of good practice for audit and risk assurance committees, as set out in the HM Treasury Audit and Risk Assurance Committee Handbook. The Committee found that it was broadly compliant with the requirements of the Handbook and was operating effectively.
14. With regard to good practice principles 1 and 2 ("membership, independence, objectivity and understanding" and "skills" respectively), the Committee recognised the importance of appointing a third Committee member as soon as possible. It was emphasised that the new member should have recent and relevant financial experience and, ideally, experience of working in a regulated industry. Once the Committee had its full complement of members, it was agreed that a process for appraising the Committee members should be put in place. It was also noted that an induction process would be required for the new member and that they should receive sufficient information to enable them to contribute effectively to meetings and hold the Executive to account.
15. With regard to good practice principles 3 and 4 ("Role and Scope"), the Committee agreed to move towards focussing on Monitor's top 15 risks and wants to hold regular "deep dives" into the top risks. The Committee reiterated its role in challenging the Executive to get the assurance that the identified mitigating actions are the right ones and are being applied effectively. Given recent changes in Monitor's role and operation the Committee also wanted to review how it considers the control environment and how it considers the Governance arrangements operating in practice in the new landscape. Consideration will be given to how the new internal audit provider could be used to provide assurance with respect to the top risks; the control environment; and governance. It was expected that the internal audit programme for 2014/15 would be aligned to the top risks faced by the organisation, as well as considering the control environment and governance.
16. The Committee also agreed that it should receive a paper setting out the recommendations from the NAO's recent VFM Report, and the related PAC Report when this was available, and how these are being addressed.

Audit and Risk Committee priorities for 2014/15

17. In light of the information set out above, the Committee has identified the following priorities for 2014/15:
 - i. The continuing development of Monitor's Risk Management Framework;
 - ii. "Deep dives" into Monitor's top risks;
 - iii. Monitor's control environment and assurance mapping; and
 - iv. Whistleblowing.

AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

1. Purpose

- 1.1. The purpose of the Committee is to support the Board and the Chief Executive (as Accounting Officer) by reviewing the comprehensiveness, reliability and integrity of the assurances provided to the Committee regarding Monitor's internal controls, risk management and governance processes. On the basis of the assurance provided to it, the Committee will form an overall view on the state of risk management, governance and internal control at Monitor, which it will report to the Board and the Accounting Officer.

2. Membership

- 2.1. The Committee shall comprise at least three members. Members of the Committee shall be appointed by the Board, on the recommendation of the Nomination Committee, in consultation with the Chairman of the Board.
- 2.2. At least two members of the Committee shall be non-executive directors. In addition to the non-executive directors, there may be a non-voting member who is independent of the Monitor Board. At least one of the Committee members shall have recent and relevant financial experience. The Chairman of the Board shall not be a member of the Committee.
- 2.3. Only members of the Committee have the right to attend Committee meetings. Other individuals, such as the Chairman of the Board, the Chief Executive, the Finance and Reporting Director, other directors, those with risk responsibilities and representatives of Monitor's internal auditors may be invited to attend all or part of any meeting as and when appropriate and necessary.
- 2.4. Representatives of the National Audit Office (Monitor's external auditor) will be invited to attend meetings of the Committee.
- 2.5. Appointments to the Committee shall be for a period of up to three years, which may be extended for further periods of up to three years, provided the individual still meets the criteria for membership of the Committee.
- 2.6. The Board shall appoint the Committee chair, on the recommendation of the Nomination Committee, who shall be a non-executive director.

3. Secretary

- 3.1. The Board Secretary or their nominee shall act as the secretary of the Committee.

4. Quorum

- 4.1. The quorum necessary for the transaction of business shall be two members. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in, or exercisable, by the Committee.

5. Frequency of Meetings

- 5.1. The Committee shall meet at least four times a year at appropriate times in the reporting and audit cycle and otherwise as required.

6. Notice of Meetings

- 6.1. Meetings of the Committee shall be called by the secretary of the Committee at the request of any of its members, the Board, the Accounting Officer or at the request of Monitor's external or internal auditors, if they consider it necessary.
- 6.2. Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be circulated to each member of the Committee, any other person required to attend and all other non-executive directors, no later than five working days before the date of the meeting. Supporting papers shall be sent to Committee members and to other attendees as appropriate, at the same time.

7. Minutes of Meetings

- 7.1. The secretary shall minute the proceedings and decisions of all meetings of the Committee, including recording the names of those present and in attendance.
- 7.2. Draft minutes of the Committee meetings shall be circulated promptly to all members of the Committee. Once approved, minutes should be circulated to all other members of the Board, unless it would be inappropriate to do so.

8. Conduct of Meetings

- 8.1. Except as outlined above, meetings of the Committee shall be conducted in accordance with the relevant provisions of Monitor's Rules of Procedure.

9. Duties

- 9.1. The Committee should carry out the duties below.

Financial reporting

- 9.1.1. The Committee shall monitor the integrity of Monitor's internal and external financial statements, reviewing significant reporting issues and judgements which they contain.
- 9.1.2. In particular the Committee shall review and constructively challenge where necessary:

- 9.1.2.1. Assurances about the financial systems which provide the figures for Monitor's accounts and the quality of the controls over their preparation;
- 9.1.2.2. The consistency of, and any changes to, accounting policies on a year on year basis;
- 9.1.2.3. The methods used to account for significant or unusual transactions where different approaches are possible;
- 9.1.2.4. Whether Monitor has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the NAO (as external auditor);
- 9.1.2.5. Whether there were any disputes arising between those responsible for preparing the accounts and the auditors;
- 9.1.2.6. The clarity of disclosure in Monitor's financial reports and the context in which statements are made; and
- 9.1.2.7. All material information presented with the financial statements, such as the management commentary, the statement of Accounting Officer's responsibilities, the statement of financial impact and the annual governance statement.

9.1.3. The Committee shall carry out these same duties with regard to the production of Monitor's own financial reporting and financial reporting associated with the consolidation of NHS foundation trusts' accounts.

Internal controls, risk management systems and corporate governance

9.1.4. The Committee shall:

- 9.1.4.1. Keep under review the adequacy and effectiveness of Monitor's internal controls and risk management systems;
- 9.1.4.2. Consider whether appropriate internal controls and risk management systems are in place to support the Annual Governance Statement;
- 9.1.4.3. Keep under review the adequacy and effectiveness of Monitor's core regulatory processes, with a view to determining whether these are sufficiently robust to manage the risks faced by the organisation;
- 9.1.4.4. Assess the corporate governance requirements of the organisation and assurances as to whether these are being met.

Whistleblowing and fraud

9.1.5. The Committee shall:

- 9.1.5.1. Review the adequacy and security of Monitor's arrangements for its employees and contractors to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action;
- 9.1.5.2. Review Monitor's procedures for detecting fraud and receive reports of any instances; and
- 9.1.5.3. Review Monitor's systems and controls for the prevention of bribery and receive reports of any non-compliance.

Internal audit

9.1.6. The Committee shall:

- 9.1.6.1. Monitor and review the effectiveness of Monitor's internal auditor service in the context of the organisation's overall risk management system;
- 9.1.6.2. Agree the appointment of Monitor's internal auditor service;
- 9.1.6.3. Consider and approve the remit of the internal auditor service and ensure that they have appropriate access to information to enable them to perform their function effectively and in accordance with Government Internal Audit Standards. The Committee shall also ensure that the internal audit service has an appropriate standing within Monitor, and is free from management or other restrictions;
- 9.1.6.4. Review and assess the internal audit strategy and annual work plans to ensure that the scope is appropriate and that relevant areas of work are prioritised;
- 9.1.6.5. Review reports from the internal audit service;
- 9.1.6.6. Review and monitor management responsiveness to the findings and recommendations of the internal audit service; and
- 9.1.6.7. Meet with the Head of Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. In addition, the Head of Internal Audit shall be given the right of direct access to the Chairman of the Board and to the Committee.

External audit

9.1.7. The Committee shall:

- 9.1.7.1. oversee the relationship between Monitor and the National Audit Office, its external auditor, including:
 - 9.1.7.1.1. Recommendations on their remuneration, whether fees are for audit or non-audit services and that the level of fees is appropriate to enable an adequate audit to be conducted;
 - 9.1.7.1.2. Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit;
 - 9.1.7.1.3. Assessing annually their independence and objectivity, taking in account relevant UK professional requirements and the relationship with the auditor as a whole, including the provision of non-audit services;
 - 9.1.7.1.4. Monitoring their compliance with relevant ethical and professional guidance on the rotation of audit partners, the level of fees paid by Monitor and other related requirements;
 - 9.1.7.1.5. Assessing annually their qualifications, expertise and resources and the effectiveness of the audit process, which shall include a report from the NAO on their own internal quality procedures; and
 - 9.1.7.1.6. Seeking to ensure their co-ordination with the activities of the internal audit function.

- 9.1.7.2. Meet regularly with the NAO, including at the planning stage before the audit and after the audit, at the reporting stage. The Committee shall meet the NAO at least once a year, without management being present, to discuss the external auditor's remit and any issues arising from the audit;
- 9.1.7.3. Review and approve the annual external audit plan;
- 9.1.7.4. Review the findings of the external audit with the NAO, including:
 - 9.1.7.4.1. A discussion of any major issues which arose during the audit;
 - 9.1.7.4.2. Any accounting and audit judgements;
 - 9.1.7.4.3. Levels of errors identified during the audit; and
 - 9.1.7.4.4. The effectiveness of the audit.
- 9.1.7.5. Review any management representation letters requested by the NAO before they are signed;
- 9.1.7.6. Review the management letter and management's response to the NAO's findings and recommendations;
- 9.1.7.7. Review any other relevant reports by the NAO;
- 9.1.7.8. Where there is need to do so, develop and implement a policy on the supply of non-audit services by the NAO, taking into account any relevant ethical guidance on the matter.

10. Reporting Responsibilities

- 10.1. The Committee's chair shall report formally in writing to the Board on its proceedings after each meeting on all matters within its duties and responsibilities.
- 10.2. The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is needed.
- 10.3. The Committee shall provide the Board with an annual report on its activities, timed to support the finalisation of the accounts and the Annual Governance Statement, summarising its conclusions from the work it has done during the year.

11. Other matters

- 11.1. The Committee shall:
 - 11.1.1. Have access to sufficient resources in order to carry out its duties, including access to the Board Secretary for assistance as required;
 - 11.1.2. Be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members;
 - 11.1.3. Give due consideration to relevant legislation, Treasury guidance (in particular the Audit Committee Handbook) and other corporate governance best practice as appropriate;

- 11.1.4. Oversee any instigation of activities which are within its terms of reference;
- 11.1.5. Arrange for periodic reviews of its own performance and, at least annually, review its constitution and terms of reference to ensure that it is operating at maximum effectiveness and recommend any changes it considers necessary to the Board for approval;
- 11.1.6. Consider any other matters where requested to do so by the Board.

12. Authority

12.1. The Committee is authorised:

- 12.1.1. To seek any information it requires from any employee of Monitor in order to perform its duties;
- 12.1.2. To obtain, at Monitor's expense, outside legal or other professional advice on any matter within its terms of reference (subject to budgets agreed by the Board);
- 12.1.3. To call any of Monitor's employees to be questioned at a meeting of the Committee as and when required; and
- 12.1.4. To have published in Monitor's annual report details of any issues that cannot be resolved between the Committee and the Board.

April 2014