

Homes England

Audit, Assurance & Enterprise Risk Committee (AAERC)

Terms of Reference

1 Overall purpose

The Committee supports the Board and the Chief Executive as Accounting Officer in their responsibilities for risk control, financial stewardship and financial and statutory reporting.

It reviews the comprehensiveness and proportionality of assurance and reporting processes consistent with the Accounting Officer's assurance needs.

The Committee does not have any executive responsibilities nor is charged with making or endorsing any decisions. It takes care to maintain its independence.

2 Responsibilities

The Committee provides advice and recommendations to the Board and the Accounting Officer on:

- 2.1 the strategic processes for risk management, internal control and of governance arrangements,
- 2.2 the acceptability and accuracy of the Homes England annual reports and financial statements and commentary contained therein,
- 2.3 the appropriateness of the planned activity and results of both internal and external audit, and the adequacy of management response to issues identified by audit activity,
- 2.4 matters pertinent to management's assurances relating to the management of enterprise risk and corporate governance standards,
- 2.5 its view of the expected overall risk outcome to Homes England arising from its operational programmes and activities, taking into account the key risks identified by Homes England's other committees (including the Investment Committee, the Nominations & Remunerations Committee, the Change Committee, and the Help to Buy Committee),
- 2.6 any material issues relating to the financial statements, value for money or internal control arising from scrutiny by the NAO, Treasury, the Public Accounts Committee or other relevant Parliamentary scrutiny,
- 2.7 anti-fraud, bribery and money laundering policies, whistle-blowing processes, and arrangements for special investigations,
- 2.8 its own effectiveness through periodic review and reporting the results of those reviews to the Board, and
- 2.9 any other matters, where requested to do so by the Board or which arise from its responsibilities above.

The Committee's responsibilities include:

2.10 **Financial reporting**

- 2.10.1 Reviewing and commenting on the integrity of the financial statements of Homes England, including its Annual Reports and Financial Statements, and any other formal reports relating to its financial and governance performance, reviewing significant financial reporting issues and judgements which they contain.
- 2.10.2 Reviewing and challenging where necessary:
- (a) The consistency of, and any changes to, accounting policies including their compliance with the Accounts Direction,
 - (b) The methods used to account for significant or unusual transactions where different approaches are possible,
 - (c) The robustness of the processes and controls relating to valuation of land assets, Home Equity Assets, loans and equity investments, including impairments to Homes England land assets resulting from its Annual Land Valuation and Validation Exercise for inclusion within the Annual Report and Accounts,
 - (d) Whether such reports and financial statements comply with the Accounts Direction,
 - (e) All related material information presented with the financial statements including the clarity and completeness of relevant disclosures.
 - (f) The extent to which matters raised in prior reporting periods have been appropriately progressed
- 2.10.3 Reviewing the corporate reports and governance statements within the annual report and advising the Board on whether the narrative, taken as a whole, is fair, balanced and understandable and provides the information required by the Department pursuant to the Framework Document.

2.11 **Internal Controls and Risk Management Systems**

- 2.11.1 Keeping under review the effectiveness of Homes England's internal controls and risk management systems.
- 2.11.2 Assessing and reporting on the extent to which Homes England has a culture which ensures that employees abide by internal controls, and promotes appropriate ethics and values within the organisation.
- 2.11.3 Reviewing and approving the statements to be included in the Annual Report and Financial Statements concerning internal controls, governance and risk management.
- 2.11.4 Monitoring and reviewing, through the Governance Statement, the effectiveness and security of Homes England's data handling procedures in line with Cabinet Office guidance.
- 2.11.5 Monitoring and reviewing the outcomes of any special investigations.

2.12 Risk

Having regard to the Board's ultimate responsibility for the agreement of statements of risk appetite, risk tolerance and the oversight of risk management:

- 2.12.1 keeping under review Homes England's performance against risk appetite and the Risk Management Framework, taking account of the current and prospective macroeconomic and financial environment and drawing on assessments published by relevant government, industry, regulatory and other authoritative sources that may be relevant for the company's risk policies,
- 2.12.2 providing commentary to the Board alongside management's reporting of the current risk exposures of Homes England and future risk strategy
- 2.12.3 periodically providing commentary on the suitability of the existing strategic risks and those matters assigned to the Committee or notified to the Committee by Homes England's other Committees and through periodic deep dives in relation to specific risks or risk themes,
- 2.12.4 monitoring and reviewing Homes England's overall risk assessment processes that inform the Board's decision making, ensuring appropriate measures – whether qualitative, quantitative, or both - are used,
- 2.12.5 setting a standard for the accurate and timely monitoring of large exposures and certain risk types of critical importance,
- 2.12.6 reviewing the quarterly summary of the litigation register
- 2.12.7 reviewing and monitor management's responsiveness to the findings and recommendations of Director of Internal Audit and the Chief Risk Officer

2.13 Compliance, raising concerns and economic crime

- 2.13.1 Monitoring and reviewing the adequacy and security of Homes England'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.
- 2.13.2 Monitoring and reviewing Homes England's procedures for detecting fraud, malpractice, procurement irregularity and compliance with the Modern Slavery Act 2015, receiving reports on non-compliance and mechanisms for reporting material fraud.
- 2.13.3 Monitoring and reviewing Homes England's systems and controls for the prevention of money-laundering and receiving reports on non-compliance.
- 2.13.4 Monitoring and reviewing Homes England's systems and controls for the prevention of bribery and receiving reports on non-compliance.
- 2.13.5 Monitoring and reviewing Homes England's compliance with Data Protection law and the Freedom of Information Act.

2.14 **Internal Audit**

- 2.14.1 Monitoring and reviewing the effectiveness of the Homes England's internal audit arrangements in the context of the overall Risk Appetite and Risk Management Framework.
- 2.14.2 Considering and approving the remit for the internal audit function and ensuring it is adequately resourced and has appropriate access to information to enable it to perform its function.
- 2.14.3 Reviewing and assessing the annual and rolling 6 monthly internal audit plan.
- 2.14.4 Reviewing, commenting on, and escalating as necessary the level of co-ordination between the internal audit plan and the NAO audit plan.
- 2.14.5 Reviewing all reports on Homes England from the internal auditors and receiving periodic reports on thematic areas of note.
- 2.14.6 Reviewing and monitoring management responses to internal audit reports and in particular the actions to implement the agreed recommendations of the internal auditor.
- 2.14.7 Meeting the Director 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 Director of Internal Audit shall have the right of direct access to the Chair of the Board and to the Chair of the Committee.

2.15 **External Audit**

- 2.15.1 Discussing with the NAO the selection process if the external audit is to be subcontracted by them and, if the selected external auditor resigns, the Committee shall investigate the issues leading to this and decide whether any action is required.
- 2.15.2 Overseeing the relationship with NAO and, as appropriate, their selected subcontractor, including (but not limited to)
 - (a) Reviewing and recommending their remuneration to Board, whether fees for audit or non-audit services, at a level sufficient to ensure that the level of fees is appropriate to enable an adequate audit to be conducted
 - (b) Approval of their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
 - (c) Assessing annually their independence and objectivity taking into account relevant UK professional and regulatory requirements and the relationship with the auditor as a whole, including the provision of any non-audit services
 - (d) Satisfying itself that there are no relationships between the auditor and Homes England other than in the ordinary course of business
 - (e) Assessing annually the effectiveness of the audit process.

- 2.15.3 Meeting the external auditor at least once a year without management being present, to discuss the remit of the external auditor and any issues arising from the audit. In addition, the external auditor shall have the right of direct access to the Chair of the Board and to the Chair of the Committee.
- 2.15.4 Reviewing and approving the annual audit plan and ensuring that it is consistent with the scope of the audit engagement.
- 2.15.5 Reviewing the findings of the audit with the external auditor. This review shall include, but not be limited to, the following:
 - (a) A discussion of any major issues which arose during the audit
 - (b) Any accounting and audit judgements
 - (c) Levels of errors identified during the audit.
- 2.15.6 Reviewing the overall effectiveness of the audit.
- 2.15.7 Reviewing any representation letter(s) requested by the external auditor before they are signed by management.
- 2.15.8 Reviewing the management letter and monitoring management's response and actions to implement the agreed findings and recommendations of the external auditors.

3 **Constitution and Membership**

- 3.1 The Committee membership shall comprise at least three and up to five Non-Executive Members. The Chair of the Committee will be appointed by the Board. The quorum necessary for the transaction of Committee business is three non executive members (including the Chair). No proposal can be voted upon unless quoracy is achieved. All members have one vote each.
- 3.2 At least one Member of the Committee should have relevant financial, audit or risk experience.
- 3.3 The Chair of the Board shall **not** be a member of the Committee.
- 3.4 Board Standing Order 13 (Standing Orders to Apply to Committees) shall apply to th Committee.
- 3.5 Members will be appointed for up to 3 years extendable by no more than one 3 year period subject to the approval of the Accounting officer in conjunction with the Chair of the Board.

4 **Authority**

- 4.1 The Committee operates in an independent advisory capacity providing advice to the Accounting Officer and Board. It is authorised by the Board and the Accounting Officer to investigate any activity within these terms of reference and to seek such information as it requires from staff.
- 4.2 The Committee may obtain ad hoc external professional advice where necessary, in agreement with the Accounting Officer, or where appropriate the Chair of Board.

4.3 The Chair of the Committee will have free and confidential access to the Accounting Officer, the Chief Finance Officer, Internal Audit and the NAO but will keep the Accounting Officer informed of discussions as appropriate.

5 **Chair of the Committee**

5.1 The Chair is responsible for ensuring that the work of the Committee is effective, that the Committee is appropriately resourced, and that it is maintaining effective communication with stakeholders.

5.2 The Chair's key activities, beyond committee meetings, should include:

5.2.1 agreeing, with the Committee Secretary, the forward plan for the business of the Committee,

5.2.2 communicating appropriately with the Board about Committee business,

5.2.3 ensuring that a suitable Annual Report is prepared and endorsed for approval by the Board,

5.2.4 meeting, at least annually, with the Accounting Officer, the Homes England Board Chair, the Chief Risk Officer, the Director of Internal Audit and the National Audit Office,

5.2.5 identifying and agreeing appropriate and timely training needs of Committee members, both in the form of a tailored induction programme for new members and on an ongoing basis for all members, to help them understand Homes England, its objectives, its business needs and its priorities,

5.2.6 ensuring that a process exists for actions points arising from Committee business to be appropriately pursued, including the briefing of members unable to attend a meeting on business conducted in their absence,

5.2.7 taking the lead in ensuring Committee members are provided with appropriate appraisal of their performance and that training needs are identified and addressed,

5.2.8 ensuring that the overall effectiveness and performance of the Committee and its Terms of Reference are reviewed at least once a year and any changes considered necessary are recommended to the Board for approval, and

5.2.9 involvement in the appointment by the Board of new Committee members, including providing advice on the skills and experience being sought by the Committee.

6 **Attendance at meetings of officers and observers**

6.1 The Chief Executive is invited to attend all Committee meetings, as is the Chief Finance Officer and the Director of Internal Audit, General Counsel and the Chief Risk Officer.

6.2 The National Audit Office, acting as external auditors (or, where appropriate, their subcontractor), will be invited to attend all meetings.

- 6.3 A representative of the Department may attend meetings as an observer.
- 6.4 Board members who are not members of the Committee shall be entitled to attend, but not vote at, meetings of the Committee.
- 6.5 Officers of Homes England shall attend meetings at the invitation of the Chair of the Committee.
- 6.6 The Committee may sit privately without any non-members present for all or part of the meeting if they so wish.

7 Information requirements

- 7.1 For each meeting the Committee will be provided with:
 - 7.1.1 a report summarising any significant changes to the organisation's strategic risks and a copy of the Strategic Risk Register
 - 7.1.2 a progress report from the Director of Internal Audit summarising:
 - (a) work performed (and a comparison with work planned)
 - (b) key issues emerging from the work of internal audit
 - (c) management response to audit recommendations
 - (d) proposed changes to the agreed internal audit plan; and
 - (e) any resourcing issues affecting the delivery of the objectives of internal audit
 - 7.1.3 a progress report (written/verbal) from the external audit representative summarising work done and emerging findings (this may include, where relevant to the organisation, aspects of the wider work carried out by the NAO, for example, value for money reports and good practice findings),
 - 7.1.4 management assurance reports, and
 - 7.1.5 reports on the management of major incidents, "near misses" and lessons learned.
- 7.2 As and when appropriate the Committee will also be provided with:
 - 7.2.1 proposals set out in the Charter of Internal Audit
 - 7.2.2 the internal audit strategy
 - 7.2.3 Internal Audit reports and management responses
 - 7.2.4 the Director of Internal Audit's Annual Opinion and Report
 - 7.2.5 a quality assurance report on the internal audit function

- 7.2.6 the draft financial statements
- 7.2.7 the draft Governance Statement
- 7.2.8 a report on any changes to accounting policies
- 7.2.9 the NAO's management letter
- 7.2.10 a report on co-operation between internal and external audit; and
- 7.2.11 the organisation's Risk Management Framework.

8 Reports and Minutes

- 8.1 Minutes of the Committee shall be made available to Board and Executive officers
- 8.2 The Chair of the Committee shall present a written report to the Board following each meeting summarising key business conducted and any matters upon which it considers the Board and Accounting Officer should be taking action, highlighting areas of risk and offering advice and the views of the Committee.
- 8.3 The Committee will provide the Board and the Accounting Officer with an Annual Report, timed to support finalisation of the Annual Report and Financial Statements including the supporting Governance Statement, summarising its conclusions and recommendations from the work it has done during the year.

9 Amendment

- 8.1 The above terms of reference may be altered and amended from time to time by express resolution of the Board of which notice shall have been given in the meeting notice at which such changes are proposed.