Revision of Terms of Reference for the Audit Committee

Report by Pippa Brown, Board Secretary

1 SUMMARY

1.1 The Board is recommended to agree the revised Terms of Reference for the Audit Committee to allow for co-option of expert advisors.

2 INTRODUCTION

2.1 At the March 2013 Business Board meeting the Chair of the Audit Committee raised the issue of the lack of financial expertise on the Board, following the Board member resignations last year, whilst a new Board member with this expertise could not be recruited. The Business Board agreed that an advisor with financial knowledge be co-opted to the Committee for a period of up to one year or until an appropriately qualified Board member was recruited.

2.2 The Terms of Reference of the Audit Committee as currently drafted do not allow for co-option and therefore this paper proposes an amendment to the Terms of Reference for this to be allowed.

3 STRATEGIC AIMS

3.1 To ensure that the scrutiny function of the Audit Committee is robust and the Terms of Reference for the Audit Committee are fit for purpose.

4 DISCUSSION

4.1 There is an anomaly in the Audit Committee Terms of Reference which does not provide for co-option of members whether they are FSA Board members or not. Both the Risk Committee and the Succession and Development Committee have this provision within their Terms of Reference.

4.2 The proposal we are asking the Board to agree is that the same text as used in the other two Committees’ Terms of Reference be adopted for the Audit Committee, namely:

“The Committee may co-opt additional members (whether members of the FSA Board or not) for a period of up to one year to provide specialist skills, knowledge or experience. Co-opted members will have a right to speak, but not vote. Co-opted members will not be included in any calculation of the quorum. “

4.3 A copy of the existing Audit Committee Terms of Reference is at Annexe A.
5  IMPACT

5.1 These changes will enable the Board to maintain a robust challenge function whilst ensuring that scheduled meetings can take place.

6  CONSULTATION

6.1 The members of the Audit Committee have been consulted and have agreed the changes to the Terms of Reference.

7  RESOURCE IMPLICATIONS

7.1 We would expect to pay an advisor a daily rate to prepare and attend 4 meetings a year.

8  LEGAL IMPLICATIONS

8.1 None

9  RISK IMPLICATIONS

9.1 The revisions to the Terms of Reference reduce the risk that the Committee are without financial advice whilst an appropriately qualified Board member is recruited.

10  SUSTAINABILITY ISSUES

10.1 None

11  CONCLUSION AND RECOMMENDATION

11.1 The Board is recommended to agree the revised Terms of Reference for the Audit Committee.

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Purpose: The Audit Committee is a committee of the FSA Board and is responsible for ensuring, in a non-executive capacity, that all aspects of the Agency’s policies, procedures, internal controls and governance are effective and appropriate to deliver the Agency’s Statutory responsibilities and Strategic objectives. To review and provide a report to the Board on the annual accounts and the Statement of Internal Control.

Membership: A minimum of five Members of the FSA Board appointed by the FSA Chair under delegated powers following consultation with the Committee Chair. At least one of those appointed will be a Board Member for Scotland, Wales or Northern Ireland and one will be the Chair of the Agency’s Risk Committee. The term of appointment will normally be coterminous with an individual’s term of appointment to the FSA Board and will automatically cease if an individual ceases to be a Board Member. At least one of the committee members should have recent and relevant financial experience.

Chair: Appointed from the membership of the Committee by the Chair of the FSA under delegated powers. The term of appointment will normally be coterminous with an individual’s term of appointment to the FSA Board.

Quorum: Three Non Executive Board Members.

Attendance: The Chief Executive, as Accounting Officer, the Finance Director, and Head of Internal Audit. A representative of the External Auditors (National Audit Office) would normally be invited to attend.

The Committee has the right to call any member of the Executive of the Agency to an Audit Committee meeting to provide advice, explanation, evidence or report.

Reporting: The Audit Committee Chair will provide the Chair of the FSA and, when appropriate, the Board and CEO with an oral update on the key elements of Audit Committee meetings. The Audit Committee will report formally in writing to the Board annually to support the finalisation of the accounts and the Statement of Internal Control and to update the Board on the work of the Committee, Internal and External Audit and any areas requiring specific attention.
Meetings: The Audit Committee will meet at least four times a year. The Chair of the Audit Committee will convene additional meetings as necessary.

Additionally the members of the Audit Committee will meet with the Head of Internal Audit and, separately, the External Auditors, annually in closed meetings when the efficacy of the processes, trust, co-operation and any other issues can be discussed and future action agreed.

Responsibilities:

The Audit Committee will advise the FSA Board and Chief Executive on:

1. the strategic processes for risk management, control and governance and the contents of the Statement on Internal Control;

2. the accounting policies, the accounts, and the annual report of the FSA, 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;

3. the planned activity and results of both internal and external audit;

4. the adequacy of the management response to issues identified by audit activity, including external audit management letters;

5. assurances relating to the corporate governance requirements for the organisation;

6. proposals for tendering for either Internal or External Audit services or for the purchase of non-audit services from contractors who provide audit services;

7. anti-fraud policies and whistle-blowing processes; and

8. the Committee’s effectiveness having reviewed its own performance, constitution and terms of reference and recommending any changes it considers necessary.

The Audit Committee will consider and, where appropriate, may agree:

1. any changes to the organisation’s Strategic Risk Registers that are relevant to the responsibilities of the Audit Committee;

2. progress reports from the Head of Internal Audit summarising:
   a. work performed (and a comparison with work planned)
   b. key issues emerging from Internal Audit work
c. management response to audit recommendations
d. changes to the Internal Audit Plans
e. any resourcing issues affecting the delivery of Internal Audit objectives

3. progress reports from the External Audit representatives summarising work done and emerging findings;

4. proposals for the terms of reference of Internal Audits;

5. Internal Audit Strategies and annual plans;

6. the Head of Internal Audit’s Annual Opinion and Report;

7. Quality Assurance reports on the internal audit function;

8. the draft accounts of the organisation;

9. any changes to accounting policies;

10. proposals to tender for audit functions;

11. summary of findings of every Internal Audit report; and

12. a report on cooperation between the FSA auditors and external auditors.

The Audit Committee will work with the Agency’s Risk Committee to ensure that the Board can be confident that processes, content, mitigating and recovery actions are appropriate and correctly resourced.

Notes:

1. The Chair of the Audit Committee will have free and confidential access to the Chair and CEO of the Agency whenever appropriate.

2. The Head of Internal Audit and the representatives of External Audit will have free and confidential access to the Chair of the Audit Committee.

3. The Committee may procure specialist ad-hoc advice at the expense of the FSA, subject to the cost being agreed by the Chief Executive as Accounting Officer.