

Appendices

Appendix I Audit committee: model terms of reference

Constitution

The governing body has established a committee of the governing body known as the audit committee.

Membership

The audit committee and its chair shall be appointed by the governing body, from among its own members, and must consist of members with no executive responsibility for the management of the institution. There shall be no fewer than three members; a quorum shall be at least two members. The chair of the governing body should not be a member of the committee. Members should not have significant interests in the institution.

At least one member should have recent relevant experience in finance, accounting or auditing. The committee may, if it considers it necessary or desirable, co-opt members with particular expertise. Members of the committee should not also be members of the finance committee (or equivalent).

Attendance at meetings

The head of finance (or equivalent), the head of internal audit and a representative of the external auditors shall normally attend meetings where business relevant to them is to be discussed. However, at least once a year the committee should meet with the external and internal auditors without any officers present.

Frequency of meetings

Meetings shall normally be held four times each financial year. The external auditors or head of internal audit may request a meeting if they consider it necessary.

Authority

The committee is authorised by the governing body to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee, and all employees are directed to co-operate with any request made by the committee.

The committee is authorised by the governing body to obtain outside legal or other independent professional advice and to secure the attendance of non-members with relevant experience and expertise if it considers this necessary, normally in consultation with the head of institution and/or chair of the governing body. However, it may not incur direct expenditure in this respect in excess of [£xx] without the prior approval of the governing body.

The audit committee will review the audit aspects of the draft annual financial statements. These aspects will include the external audit opinion, the statement of members' responsibilities, the statement of internal control and any relevant issue raised in the external auditors' management letter. The committee should, where appropriate, confirm with the internal and external auditors that the effectiveness of the internal control system has been reviewed, and comment on this in its annual report to the governing body.

Duties

The duties of the committee shall be to:

- a. advise the governing body on the appointment of the external auditors, the audit fee, the provision of any non-audit services by the external auditors, and any questions of resignation or dismissal of the external auditors
- b. discuss with the external auditors, before the audit begins, the nature and scope of the audit
- c. discuss with the external auditors problems and reservations arising from the interim and final audits, including a review of the management letter; incorporating management responses, and any other matters the external auditors may wish to discuss (in the absence of management where necessary)
- d. consider and advise the governing body on the appointment and terms of engagement of the internal audit service (and the head of internal audit if applicable), the audit fee, the provision of any non-audit services by the internal auditors, and any questions of resignation or dismissal of the internal auditors
- e. review the internal auditors' audit risk assessment, strategy and programme; consider major findings of internal audit investigations and management's response; and promote co-ordination between the internal and external auditors. The committee will ensure that the resources made available for internal audit are sufficient to meet the institution's needs (or make a recommendation to the governing body as appropriate)
- f. keep under review the effectiveness of the risk management, control and governance arrangements, and in particular review the external auditors' management letter, the internal auditors' annual report and management responses
- g. monitor the implementation of agreed audit-based recommendations, from whatever source
- h. ensure that all significant losses have been properly investigated and that the internal and external auditors – and where appropriate the funding council's accounting officer – have been informed
- i. oversee the institution's policy on fraud and irregularity, including being notified of any action taken under that policy
- j. satisfy itself that suitable arrangements are in place to promote economy, efficiency and effectiveness
- k. receive any relevant reports from the National Audit Office (NAO) and its equivalents in Scotland, Wales and Northern Ireland, the funding councils and other organisations
- l. monitor annually the performance and effectiveness of the external and internal auditors, including any matters affecting their objectivity, and make recommendations to the governing body concerning their reappointment, where appropriate.
- m. consider elements of the annual financial statements in the presence of the external auditors, including the auditors' formal opinion, the statement of members' responsibilities and the statement of internal control, in accordance with the funding councils' accounts directions

- n. in the event of the merger or dissolution of the institution, ensure that the necessary actions are completed, including arranging for a final set of financial statements to be completed and signed.

Reporting procedures

The minutes (or a report) of meetings of the audit committee will be circulated to all members of the governing body.

The committee will prepare an annual report covering the institution's financial year and any significant issues up to the date of preparing the report. The report will be addressed to the governing body and head of institution, and will summarise the activity for the year. It will give the committee's opinion of the adequacy and effectiveness of the institution's arrangements for the following:

- risk management, control and governance (the risk management element includes the accuracy of the statement of internal control included with the annual statement of accounts)
- economy, efficiency and effectiveness (value for money).

This opinion should be based on the information presented to the committee. The audit committee annual report should normally be submitted to the governing body before the members' responsibility statement in the annual financial statements is signed.

Clerking arrangements

The clerk to the audit committee will be the clerk to the governing body (or other appropriate independent individual).

Appendix 2 Model letter of appointment for audit committee members

The terms of appointment of an audit committee member should be clearly set out at the time of appointment. The following is an example of what might be included in the letter of appointment, but this should be tailored to the specific circumstances of the institution.

You have been appointed to the audit committee by the governing body of [institution]. As a member of the audit committee you are accountable to the governing body through the chair of the committee. Your appointment is for three years from [date]. This appointment may be renewed, up to two times, by mutual agreement after the duration of the appointment.

The audit committee is a committee of the governing body. The purpose of the audit committee is to assist the governing body to discharge its responsibility for adequate and effective risk management, control and governance and for the economy, efficiency and effectiveness of the institution's activities. In particular this includes:

- reviewing the audit aspects of the institution's financial statements
- monitoring and reviewing the effectiveness of the risk management, control and governance arrangements
- reviewing the arrangements in place to promote economy, efficiency and effectiveness
- providing oversight of the appointment of the internal auditor and the nature, scope and effectiveness of the internal audit process
- providing oversight of the appointment of the external auditor and the nature, scope and effectiveness of the external audit process.

A copy of the audit committee's terms of reference and current work plan is enclosed.

The current members of the audit committee are listed below:

[Name] Chair

[Name]

[Name]

The secretary of the audit committee is [name/contact details] and will shortly be in touch with you to discuss and arrange appropriate induction training.

To help you to understand the governance arrangements and the role of audit committees in the higher education sector, copies of the Committee of University Chairmen publications *Guide for Members of Higher Education Governing Bodies in the UK* and *Handbook for Members of Audit Committees in Higher Education Institutions* are enclosed with this letter of appointment.

Your duties as an audit committee member are expected to typically take between 25 and 50 hours per year. This includes the time necessary to familiarise yourself with the organisation, undergo appropriate professional development, read the audit committee papers and prepare for meetings. The audit committee usually meets four times each year, but additional meetings may be required from time to time.

As a member of the audit committee, each year you will be party to a rigorous formal audit committee appraisal process.

If during your period of appointment to the audit committee your personal circumstances change in any way that might provide a conflict of interest for you in your audit committee role, you are to declare the circumstances to the chair of the audit committee.

As an audit committee member, you will be expected to declare proactively any potential conflict of interest arising out of business relating to the committee's agenda or from changes in your personal circumstances. The chair of the audit committee will then determine the appropriate course of action.

As a member of the audit committee, you are expected to conduct yourself in your role in accordance with the 'seven principles of public life' as defined by the Nolan Committee. A copy of the principles is enclosed.

If you choose to resign from the audit committee you will be expected to give three months' notice, unless your circumstances have changed in a way that make it appropriate for you to resign immediately. If your performance or conduct as an audit committee member is deemed unsatisfactory, your appointment may be terminated by the governing body.

Appendix 3 A framework (i.e. work plan) for audit committee meetings

	Originator	1st calendar quarter	2nd calendar quarter	3rd calendar quarter	4th calendar quarter
1. Apologies for absence	Secretary				
2. Declarations of interest in the business of the meeting	Members				
3. Minutes of previous meeting	Secretary				
4. Matters arising	Chair				
5. Last report to governing body	Chair				
6. Any relevant funding council (or similar) circulars	Head of finance				
7. Financial memorandum terms	Head of finance				
8. Risk management updates	VC				
	Head of finance				
9. Internal control update (and follow-up actions)	VC				
	Head of finance				
10. Whistle-blowing process	VC				
	Head of finance				
11. VFM updates	Head of finance				
12. Internal audit strategy (rolling 3-5 years)	Internal audit				
13. Internal audit reports and recommendations follow-up	Internal audit				
14. Internal audit annual report	Internal audit			Draft	Final
15. Annual governance and internal control statements to accompany financial statements	VC			Draft	Final
	Head of finance				
	Chair of governing body				

16. Audited financial statements		Head of finance						
		External audit	Follow-up action status	Follow-up action status	Follow-up action status	Management responses		
17. External audit management letter		External audit						
18. External audit interim comments		External audit						
19. External audit opinion on financial statements		External audit						
20. Audit committee annual report to governing body	Chair				Draft	Final		
21. Evaluation of internal audit function and establishing criteria for next evaluation	Chair	Head of finance						
22. Internal audit terms of reference		Internal audit Head of finance						
23. Evaluation of external audit and establishing criteria for next evaluation		Chair Head of finance						
24. Appointment of external auditor		Chair Head of finance						
25. External audit fees (and non-audit fees)		Chair Head of finance						
26. External audit plan		External audit						
27. Evaluation of audit committee		Chair to facilitate						
28. Review and recommend committee's terms of reference to governing body		Chair						
29. Training plan for audit committee members		Chair						
30. Confirm meeting dates		Secretary						
31. Any other business		Chair						
32. Private session with auditors		Chair Auditors						

Appendix 4 Specimen year-end timetable

Year end	31 July
Management prepares draft financial statements	August
Financial statements audited by external auditor	September
Meeting(s) with external auditor to clear outstanding issues	October
Financial statements reviewed by finance committee	October
Financial statements (including the governance statements) reviewed by audit committee	October
Financial statements finalised	October
Audit committee finalises its annual report to the governing body	October
External auditor prepares and issues the management letter	November
Management letter's points considered by audit committee and management	November
Financial statements approved by governing body on recommendation of audit committee	November
Financial statements (and related information) submitted to funding council	No later than 1 December

Appendix 5 Corporate governance questions

Audit committees, when carrying out their assessment of the effectiveness of the institution's corporate governance arrangements, may wish to consider (in addition to reviewing reports from both internal and external audit) the following questions and any assurances they might deem appropriate.

The questions are included for guidance only. They are not intended to be exhaustive and will need to be tailored to the particular circumstances of the institution.

The governing body

A. Composition and balance

1. Has the governing body taken steps to ensure that it is of sufficient size such that the balance of skills and experience is appropriate for the institution, yet not so large as to become unwieldy?
2. Do the independent members of the governing body form a majority for voting purposes?
3. Has the governing body taken steps to ensure that power and information are not concentrated in one individual?
4. Does the governing body meet regularly and are meetings well attended?
5. Has the governing body defined its quorum requirements and what happens if it is not quorate at the outset of a meeting?

B. Role and responsibilities

1. Does the governing body recognise its collective responsibility and accountability for the success of the institution?
2. Does the governing body recognise its collective responsibility for risk management, internal control and the governance of the institution?
3. Is there a formal schedule of matters specifically reserved for decision by the governing body?
4. Has the governing body developed formal financial and operational procedures to regulate the institution?
5. Are the roles of chair of the governing body and vice chancellor clearly established, set out in writing and agreed by the governing body?
6. Are there clearly defined roles and responsibilities for members of the governing body and senior staff?
7. Is there a formal and transparent structure of delegated powers and authorities?

Procedures

A. General processes

1. Has the governing body established appropriate procedures to ensure that all applicable laws and regulations are complied with?
2. Has the governing body established procedures to ensure that public funds are: properly safeguarded; used economically, efficiently and effectively; and used for the purpose they were intended?

-
3. Has the governing body taken steps to ensure that its members conduct themselves in accordance with high standards of personal behaviour? Is there a formal definition of the standards of behaviour expected of members of the governing body and senior staff?
-
4. Has the governing body established procedures to identify, record and monitor conflicts of interest?
-
5. Is there an agenda item at the beginning of each governing body meeting that requires members attending to declare any interest that any of them may have in the business of that meeting?
-

B. Appointments to the governing body and its committees

1. Is there a formal, rigorous and transparent procedure for appointing new members to the governing body and its committees?
-
2. Has the governing body appointed a nominations committee, with a majority of independent members, to develop recommendations?
-
3. Are appointments to the governing body made on merit and against objective criteria?
-
4. Does the governing body have plans in place for the orderly succession of members of the governing body and senior management, so as to maintain an appropriate balance of skills and experience within the institution?
-
5. Are members of the governing body and key committees required to submit themselves for re-election at regular intervals, subject to continued satisfactory performance?
-
6. Are the duties, terms of office and remuneration (if any) of the members of the governing body clearly defined?
-

C. Information and professional development

1. Has the governing body taken steps to ensure that it and its committees are supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties?
-
2. Does the governing body take steps to ensure that its members, and any individuals co-opted to its committees, receive an appropriate induction on joining the governing body and its committees?
-
3. Does the governing body take steps to ensure that its members, and any individuals co-opted to its committees, continually update and refresh their skills and knowledge?
-
4. Are procedures in place to ensure that members of the governing body have access to independent professional advice, at the institution's expense, where they judge it necessary to discharge their responsibilities as members of the governing body?
-
5. Do all members of the governing body have access to the impartial advice and services of the secretary to the governing body (or equivalent)?
-

D. Performance evaluation

1. Does the governing body undertake a formal and rigorous regular evaluation of its own performance and that of its committees and individual members of those bodies?
-

E. Remuneration and reward arrangements

1. Has the governing body established a formal, transparent procedure (such as a remuneration committee) for making recommendations on the remuneration and terms of employment of the vice chancellor and other senior officers?

2. Does the governing body take appropriate action to ensure that the remuneration committee (or equivalent) comprises individuals with the necessary skills, experience and independence?

3. Are procedures in place to ensure that remuneration is sufficient to attract and retain appropriate senior staff, but not more than is necessary for this purpose?

4. Are procedures in place to ensure that the institution discharges its duties regarding the remuneration of staff, including union recognition, termination of employment and similar matters?

Dialogue with stakeholders

1. Has the governing body established clear channels of communication with the institution's major stakeholders?

2. Has the governing body established processes to ensure that communication channels are fit for purpose and working as intended?

3. Are the names of all members of the governing body made publicly available along with the process for making appointments to the governing body?

Audit and accountability

A. Financial reporting

1. Is the annual report produced by the governing body a balanced and understandable assessment of the institution's position and prospects?

2. Does the governing body include in the annual report an explanation of its responsibility for preparing the institution's accounts?

3. Does the governing body include a statement confirming compliance with the Nolan principles within its corporate governance statement in the annual report?

B. Internal control

1. Does the governing body, at least annually, conduct a review of the effectiveness of the institution's system of risk management and internal controls, covering all risks and controls including financial, operational and compliance?

2. Does the governing body include a statement on the effectiveness of the system of risk management, internal control and governance within the annual report?

C. Audit committee and auditors

1. Is the audit committee set up in accordance with the requirements of the funding council?

2. Does the governing body take appropriate action to ensure that the audit committee comprises individuals with the necessary skills, experience and independence?

3. Have the role and responsibilities of the audit committee been agreed by the governing body and set out in sufficiently detailed written terms of reference?

-
4. Has the governing body taken steps to ensure that it receives independent, objective advice as to the arrangements for adequate and effective risk management, control and governance, and for the economy, efficiency and effectiveness of the institution's activities?

 5. Does the audit committee review arrangements by which students and staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters?

 6. Has the governing body taken steps to establish and maintain an effective internal audit function, whether in-house, co-sourced or outsourced?

 7. Has the governing body taken steps to establish and maintain an objective relationship with the external auditors?

Appendix 6 Audit committee annual report: model format

The audit committee is required to prepare an annual report for submission to its own governing body and, in England, subsequently to HEFCE. The audit committee annual report should be supported by the internal audit annual report, which would therefore normally accompany it. The annual report should be prepared as early as possible after the end of each financial year, with the aim of its being available before the annual financial statements are signed. The report should be signed and dated by the chair of the committee. This model indicates what could be included in the annual report.

Title	Full name of institution, audit committee annual report, financial year. Addressed to governing body and head of institution.
Introduction	Period covered; this should relate specifically to the audit committee's work on the relevant financial year. However, any additional issues should be covered where appropriate, particularly if they affect the opinion (for example, where the previous year's annual report could not include something because of timing, or issues have arisen since the year end).
Membership	Names; details of changes and dates thereof; terms of office; identity of chair; also separately give details of the clerk to the committee.
Meetings	Dates of meetings, note of members attending, and a general statement about who else is normally in attendance).
Terms of reference	If applicable, details of changes and their effect on the work of the committee.
Internal audit	<ol style="list-style-type: none"> 1. Name of provider; details of any changes made or due; fee basis; audit committee's assessment of performance for the year (including the use of performance measures and obtaining the views of the external auditors). 2. Review of appointment; when market testing is due for consideration. 3. Review of internal audit annual report (which may be attached to the audit committee annual report); achievement of planned work; consideration of and comment on internal auditors' overall opinion of risk management, control and governance arrangements, and VFM arrangements, as necessary. 4. Review of audit risk assessment and strategy as appropriate. Number of audit days last year/next year (compare); inclusion of VFM studies. Details of any restrictions placed on the work of the internal auditors. 5. Review of audit reports (may appropriately focus on only the more significant issues); audit committee's view of management responses to audit findings and recommendations; resolution of issues arising. 6. Review of unplanned or special reports; audit committee's view of management responses to the findings and recommendations; details of any significant recommendations outstanding.

7. Review of VFM studies; summary of important findings and recommendations.
8. Confirmation that the audit committee has held one or more closed meetings with the internal auditors during the course of the year.

External audit

1. Name of provider; details of any changes made or due; fee basis; audit committee's assessment of performance for the year (for example, audit planning, timetable set and met); confirmation to governing body of recommendation of annual re-appointment (or deferral to next meeting); when market testing is due for consideration.
2. Details of any non-audit services provided.
3. Review of the external auditors' management letter (draft and final versions where appropriate); significant points arising; audit committee's view of management responses to the findings and recommendations.
4. Confirmation that the audit committee has held a closed meeting with the external auditors following completion of the audit.

Other work done

1. Where undertaken, review of specific parts of the annual accounts (preferably between finance committee and governing body), including members' responsibility and statement of internal control, any relevant issue raised in management letter, and external auditors' formal annual opinion.
2. Review of assurances received from management and other significant assurance providers.
3. Review of the institution's risk management strategy.
4. Other work, including funding council reports, letters and other requirements (such as HEFCE Assurance Service report, student number audit if undertaken, VFM studies; review or changes to codes of audit practice and CUC guidance); special reports or investigations not dealt with elsewhere (e.g. on major fraud or irregularity); significant changes to the institution's risk management, internal control and governance systems; review of relevant reports from the NAO and its counterparts throughout the UK, other formal certificates or returns seen; review of financial regulations, including amendments, communication or recommendations made; issues arising on trusts, joint ventures, subsidiary or associated companies; other VFM work such as review of VFM strategy. Recommendations made not dealt with elsewhere.

Other

Issues not relevant to the reporting year, such as forthcoming events and issues relating to prior years.

Opinion

Audit committee's opinion on the adequacy and effectiveness of institutional arrangements (up to date of its report) for the following:

- risk management, control and governance (risk management element includes accuracy of statement of internal control included with annual statement of accounts)

- economy, efficiency and effectiveness (value for money).

These opinions should be based on the information presented to the committee.

New arrangements coming into effect on 1 August 2008 may require audit committees to consider whether quality control of their institutional returns is adequate.

Circulation	Copy, in England, to the HEFCE Assurance Service and auditors once approved by the governing body.
--------------------	--

Appendix 7 Example of a whistle-blowing policy

Introduction

All staff are encouraged to raise genuine concerns about possible improprieties in accounting, auditing or other matters, and other malpractices, at the earliest opportunity and in an appropriate way.

This policy is designed to:

- support our values
- ensure that staff can raise concerns without fear of suffering retribution
- provide a transparent and confidential process for dealing with concerns.

The policy not only covers possible improprieties in matters of financial reporting, but also:

- fraud
- corruption, bribery or blackmail
- criminal offences
- failure to comply with a legal or regulatory obligation
- failure to properly safeguard assets
- miscarriage of justice
- endangering the health and safety of an individual
- concealment of any of the above.

Principles

- All concerns raised will be treated fairly and properly.
- We will not tolerate the harassment or victimisation of anyone raising a genuine concern.
- Any individual making a disclosure will retain their anonymity unless they agree otherwise.
- We will ensure that any individual raising a concern is aware of who is handling the matter.
- We will ensure that no one will be at risk of suffering some form of retribution as a result of raising a concern, even if they are mistaken. We do not, however, extend this assurance to someone who maliciously raises a matter they know to be untrue.

Grievance procedure

If any employee believes reasonably and in good faith that malpractice exists in the workplace, then they should report this immediately to their departmental head. However, if for any reason they are reluctant to do so, they should report their concerns to the:

- clerk, or
- director of human resources.

Employees concerned about speaking to a member of staff can speak, in confidence, to an independent third party by calling the **whistle-blowing hotline** on [tel]. This is provided

through the independent party which supplies a counselling and legal advice service. Employees' concerns will be reported to the institution without revealing their identity.

If these channels have been followed and employees still have concerns, or feel that the matter is so serious that it cannot be discussed with any of the above, they should contact the chair of the audit committee on [tel].

Individuals who raise concerns internally will be informed of who is handling the matter; how they can make contact with them, and if any further assistance is required. We will give as much feedback as we can without any infringement of a duty of confidence owed by us to someone else.

An individual's identity will not be disclosed without prior consent. Where concerns are unable to be resolved without revealing the identity of the person raising the concern (e.g. if that person's evidence is required in court), we will enter into a dialogue with the individual concerned as to whether and how we can proceed.

If employees are unsure whether to use the procedure, or want independent advice at any stage, they may contact the independent charity [tel]. Their lawyers can give free, confidential advice at any stage about how to raise a concern about serious malpractice at work.

Public Interest Disclosure Act 1998

All UK employees are protected under the Public Interest Disclosure Act 1998 when they make a protected disclosure. This is a disclosure of information which, in the reasonable belief of the employee making the disclosure, covers the following employer activities:

- a criminal offence has been, is being, or is likely to be committed
- a person has failed, is failing, or is likely to have failed to comply with any legal obligation to which they are subject
- a miscarriage of justice has occurred, is occurring or is likely to occur
- the health and safety of an individual has been, is being, or is likely to be endangered
- the environment has been, is being, or is likely to be damaged
- information relating to the above is being deliberately concealed.

Employees in other territories will be treated by the institution as if such legislation applied to them.

Appendix 8 Example policy on using external auditors for non-audit services

This appendix sets out the policy for the appointment and remuneration of the external auditors for any work undertaken on behalf of the institution. It outlines the control processes that will be put in place to ensure compliance with the policy.

Statutory audit

The head of finance will recommend the overall fee for statutory audit to the audit committee. It is the responsibility of the audit committee to review the proposed audit fee and recommend it to the governing body for approval.

The audit committee will review the independence and effectiveness of the external auditors on an annual basis.

Other work as auditors or reporting accountants

While it is difficult to be precise about the definition of other work the external auditor may undertake as auditor, it includes the following:

- any other review of the accounts for regulatory purposes
- assurance work related to compliance and corporate governance, including high-level controls
- regulatory reviews or reviews commissioned by the audit committee
- accounting advice and reviews of accounting standards.

The head of finance must clear the appointment of the external auditor for any such work in advance with the chair of the audit committee.

The audit committee will receive a [quarterly] report analysing fees paid for non-audit services, with additional commentary on assignments agreed during the quarter.

Tax advisory services

The external auditor may provide tax advisory services, including tax planning and compliance, provided such advice does not conflict with the auditor's statutory responsibilities and ethical guidance.

The audit committee will determine whether the appointment of the external auditor for any tax work would conflict with the auditor's statutory duties. Any tax assignment in excess of [£x] requires the approval of the head of finance, who will consult with the chair of the audit committee in respect of any assignment over [£y]. The audit committee will receive a [quarterly] report on the tax advisory services provided by the external auditor.

Merger/acquisition support

It is permissible for the external auditor to be appointed to undertake specific merger/acquisition activities on behalf of the institution. However, the auditor cannot be appointed to undertake such work without the prior approval of the head of finance, who will consult with the chair of the audit committee regarding any assignment that could involve fees in excess of [£x]. Any fees paid in respect of merger/acquisition activity will be reported quarterly to the audit committee.

Other accounting advisory and consultancy work

There may be occasions when the external auditor is best placed to undertake other accounting, investigatory, advisory and consultancy work on behalf of the institution, because of the auditor's in-depth knowledge of the institution. However, the following are specifically prohibited:

- work related to accounting records and financial statements that will ultimately be subject to external audit
- management of, or significant involvement in, internal audit services
- secondments to management positions that involve any decision-making
- any work where a mutuality of interest is created that could compromise the independence of the external auditor
- any other work which is prohibited by UK ethical guidance.

Any assignment in excess of [£x] can only be awarded to the external auditor after competitive tender. The inclusion of the external auditor on a tender list requires the prior approval of the head of finance. The head of finance will consult with the chair of the audit committee regarding any tender for work in excess of [£y]. Details of all such work and fees paid will be reported [quarterly] to the audit committee.

Appendix 9 Example policy on employing former employees of the external auditor

The audit committee has adopted the following policy regarding the employment of former employees of the institution's external auditor:

For the purposes of this policy, the 'audit team' means any partner, director, manager, staff, reviewing actuary or reviewing tax professional associated with the institution's external auditor who works on any aspect of the annual audit of the institution's financial statements.

For the purposes of this policy, 'employee of the institution's independent auditing firm' includes any person regularly providing professional services on behalf of the independent auditor, regardless of whether that person is legally an employee of the firm. For example, if the external auditor is a partnership, a partner would be deemed an 'employee of the institution's independent auditor'. For the purposes of these guidelines, 'institution' includes the university and its subsidiaries.

No member of the audit team can be hired to a financial reporting oversight role within two years of their association with the audit. A financial oversight role is any position that has direct responsibility for overseeing those who prepare the institution's financial statements.

No former employee of the institution's external auditor may be an officer of the institution within two years of the termination of their employment with the institution's external auditor:

No former employee of the institution's external auditor may join the senior executive team without the approval of the director of human resources and the chair of the audit committee.

Each year, the director of human resources shall inform the audit committee of any former employees of the external auditor employed by the institution in the preceding year.

Appendix 10 Model external audit report for an institution's annual financial statements

The following is the suggested form of wording of the unqualified report (if appropriate).

Report of the independent auditors to the governing body of.....

We have audited the [group and] university financial statements (the 'financial statements') of [name of university] for the year ended 31 July 20XX which comprise [state the primary statements such as the [group/university] income and expenditure account, the [group/university] balance sheets, the [group/university] cash flow statement, the [group/university] statement of total recognised gains and losses and the related notes on [pages...to...]. These financial statements have been prepared under the accounting policies set out therein.

This report is made solely to the governing body, in accordance with [the charter and statutes of the University]/[paragraph XX of the University's articles of government and section 124B of the Education Reform Act 1988]. Our audit work has been undertaken so that we might state to the governing body those matters we are required to state to it in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the [council/board of governors] for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the University's [council/board of governors] and auditors

The governing body's responsibilities for preparing the [treasurer's report] and the [group] financial statements in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education, applicable law and UK Accounting Standards (UK Generally Accepted Accounting Practice) are set out in the Statement of Responsibilities on page [number].

Our responsibility is to audit the financial statements in accordance with relevant legal and regulatory requirements and the International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the financial statements give a true and fair view and are properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education. We also report to you whether income from funding councils, grants and income for specific purposes and from other restricted funds administered by the University have been properly applied only for the purposes for which they were received. In addition, we report to you whether, in all material respects, income has been applied in accordance with the statutes and, where appropriate, the financial memorandum with the Higher Education Funding Council for England, [the Training and Development Agency for Schools and the Learning and Skills Council]. We also report to you whether in our opinion the [treasurer's report] is not consistent with the financial statements, if the University has not kept proper accounting records, or if we have not received all the information and explanations we require for our audit.

We read the [treasurer's report] and the Corporate Governance Statement and consider the implications for our report if we become aware of any apparent misstatements within them or material inconsistencies with the financial statements. We are not required to consider whether the statement of internal control (included as part of the Corporate Governance Statement) covers all risks and controls, or to form an opinion on the effectiveness of the institution's corporate governance procedures or its risk and control procedures.

Basis of opinion

We have conducted our audit in accordance with the International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board, and the Audit Code of Practice issued by the (funding council). An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the governing body in preparing the financial statements and whether the accounting policies are appropriate to the [group and] University's circumstances, consistently applied and adequately disclosed.

We planned and have performed our audit so as to obtain all the information and explanations we considered necessary to provide us with sufficient evidence to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we have also evaluated the overall adequacy of the presentation of information in the financial statements.

Opinion

In our opinion:

the financial statements give a true and fair view, in accordance with UK Generally Accepted Accounting Practice, of the state of affairs of the University [and the group] as at 31 July 20XX and of the [University's/Group's] [surplus of income over expenditure/deficit of expenditure over income] for the year then ended

- the financial statements have been properly prepared in accordance with the Statement of Recommended Practice: Accounting for Further and Higher Education
- in all material respects, income from the funding council, [the Training and Development Agency for Schools] [and the Learning and Skills Council], grants and income for specific purposes and from other restricted funds administered by the University during the year ended 31 July 20XX have been applied for the purposes for which they were received
- in all material respects, income during the year ended 31 July 20XX has been applied in accordance with the University's statutes and, where appropriate, with the financial memorandum with the funding council, [the funding agreement with the Training and Development Agency for Schools] [and the funding agreement with the Learning and Skills Council].

Appendix II Evaluation of the external auditor

The following is a suggested checklist framework for an audit committee to carry out a formal review of the effectiveness and efficiency of the external auditor. It provides the audit committee with a disciplined approach to keeping the auditors' performance under review. It will also help to ensure that the auditors remain alert to the institution's needs and to maintaining an appropriate relationship with the executive management, the audit committee and the governing body as a whole.

This is not an exhaustive list of questions. Audit committees should tailor and adapt the questions to their specific circumstances.

In carrying out its assessment, the audit committee should also consider the views of other parties who come into contact with the external audit team, such as the head of finance and the internal auditor:

Calibre of external audit firm

1. What is the reputation of the external audit firm? Are there recent or current litigation cases against the firm?
2. What is the reputation and presence of the external audit firm in the higher education sector?
3. Does the external audit firm have the required resources to audit the institution?

Quality processes

1. What quality control processes does the external audit firm operate? (Factors to be considered include the level and nature of review procedures, the approach to audit judgements and issues, independent quality control reviews and the external audit firm's approach to risk.)
2. How are partners and key members of the engagement team rewarded? Do these compensation arrangements threaten the external auditor's independence?
3. What is the external audit firm's process for internal review of accounting judgements, including an understanding of the key issues?
4. What relevant specialists does the external audit firm employ and how are these deployed to the audit process?

Audit team

1. Do the individuals assigned to the external audit team have the requisite expertise regarding the higher education sector?
2. Are sufficient resources allocated to the audit?
3. What is the scope of the engagement partner's/other senior personnel's involvement in the audit process and is this sufficient?
4. Does the external audit firm have adequate succession plans in place for key team members? Do these plans meet the relevant audit partner rotation requirements and facilitate the maintenance of objectivity?

Audit scope

1. Is the scope of external audit adequate to address all of the financial reporting risks facing the institution?
2. Does the external audit firm agree the audit scope and plan with the audit committee?
3. Is specialist input to the audit in areas such as taxation and pensions at an appropriate level?
4. Are all the institution's key subsidiaries and business ventures covered by the external audit?
5. What is the external audit firm's approach to seeking and assessing management representations?
6. Does the external auditor have an effective working relationship with internal audit?

Audit fee

1. Is the external audit fee reasonable given the scope of the external audit, and how does it compare with that for other similarly sized institutions?
2. How are differences between actual and budgeted fees handled? Are overruns reasonable and explained to the committee?
3. Is the quantum of non-audit fees likely to have an impact on audit objectivity?

Audit communications

1. Does the external audit firm advise the audit committee on a timely basis about significant issues and new developments regarding risk management, corporate governance, financial accounting and related risks and controls?
2. Does the external auditor discuss the critical accounting policies and whether the accounting treatment is conservative or aggressive?
3. Does the external auditor contribute positively in audit committee meetings (and private sessions)? Are the external auditor's papers and oral communications clear, concise, open, focused and robust?
4. Does the external audit firm resolve accounting issues in a timely manner and keep management and the audit committee apprised of progress as appropriate?
5. Does the external audit firm seek feedback on the quality and effectiveness of the service it provides? Does it listen and take appropriate action to remedy any issues?

Audit governance and independence

1. Does the external audit firm employ open lines of communication/reporting with the audit committee?
2. Are unadjusted audit differences and significant weaknesses in internal controls clearly communicated on a timely basis?
3. Do the individuals assigned to the audit demonstrate a high degree of integrity in their dealings with the audit committee?

4. Does the external audit firm discuss with the audit committee its internal process for ensuring independence?
5. Does management hold the auditors in high regard? Does it consider the audit process to be objective and challenging?

Appendix 12 External audit: model terms of reference

The funding council should be notified of any material difference between this model letter and the auditors' letter.

To the members of the governing body of.....

Appointment and qualification

1. As appointed auditors of we agree to the following basis on which we shall perform our duties.
2. We understand that the governing body (this will require modification where the governing body does not appoint the auditor) will assess the auditors' work in each year and undertake a detailed review of the appointment at least every seven years. Remuneration will be fixed by the governing body on the advice of the audit committee.
3. We confirm that we are qualified as auditors in accordance with relevant legislation.

Responsibilities of the institution

4. We recognise that the governing body is responsible on behalf of the institution for:
 - a. Establishing and maintaining a system of controls – financial and otherwise – in order to carry on the operation of the institution in an orderly and efficient manner; ensure adherence to management policies, safeguard the assets and secure, as far as possible, the completeness and accuracy of the records.
 - b. Preparing financial statements that:
 - i. comply with the institution's charter and statutes, all statutory requirements relating to the institution's financial affairs, the financial memorandum (dated) with the [funding council], any requirements of the Learning and Skills Council or the Training and Development Agency for Schools (if appropriate), and other regulations relating to the constitution and activities of the institution and which are relevant to its financial affairs
 - ii. show a true and fair view of the state of the institution's affairs at 31 July, and of the cash flows and income and expenditure for the year then ended, taking into account where relevant and appropriate all required statutory and other disclosure requirements and the Statement of Recommended Practice: Accounting for Further and Higher Education.
 - c. Preparing the Finance Record (or its successor) in accordance with instructions from the Higher Education Statistics Agency (HESA).

Standards of audit

5. We will undertake the audit of the institution's financial statements and such other matters as the governing body requires in accordance with auditing standards, having regard to relevant auditing guidelines and auditing standards issued by the Auditing Standards Board.

Reporting

6. We as auditors:
 - a. are responsible for making a report to the governing body on the financial statements which are to be laid before the governing body during our tenure of office
 - b. may be required to provide an audit report on the HESA Finance Record (or its successor) which should be consistent with our audit report on the institution's financial statements.
7. Our report will state whether in our opinion the financial statements show a true and fair view of the institution's affairs at 31 July, and of the cash flow and income and expenditure for the year then ended.
8. In arriving at our opinion we are required to consider the following matters and to report on any aspect where we are not satisfied, namely whether:
 - a. proper records are being kept by the institution
 - b. the financial statements agree with the accounting records
 - c. we have obtained all the information and explanations we think are necessary for the purpose of our audit
 - d. the financial statements comply with the Companies Act 1985 (where the institution is incorporated under the Companies Act) and, where appropriate, with the Statement of Recommended Practice: Accounting for Further and Higher Education or other legislative or regulatory requirements.
9. We will also report to the governing body as to whether, in all material respects, monies expended out of all non-recurrent grants and other funds from whatever source, administered by the institution for specific purposes, have been properly applied to those purposes and, if appropriate, managed in compliance with any relevant legislation.
10. We agreed with the institution the wording of an unqualified audit report at the time of our appointment. Any subsequent modifications or qualifications will be based on our professional judgement, but will comply with the Auditing Practices Board's Auditing Standard: Audit Reports on Financial Statements (May 1993).
11. We undertake to report to the governing body any significant matters arising from the audit which might lead to material errors or have an impact on future audits. This could include areas where economies might be made or resources could be used more effectively, with advice for improvement. The management letter could include:
 - a. weaknesses in the structure of accounting systems and internal control
 - b. deficiencies in the operation of accounting systems and internal control, including internal audit
 - c.
 - i. that the work of the internal auditors has been assessed, and
 - ii. the extent to which reliance can be placed on the work of the internal auditors in support of external audit work
 - d. inappropriate accounting practices and regulations
 - e. non-compliance with legislation, accounting standards, funding council requirements or other regulations.

Irregularities, including fraud

12. The governing body is responsible for ensuring the establishment and maintenance of adequate risk management, control and governance arrangements. It is also responsible for ensuring compliance with statutory, taxation and other regulations and for the prevention and detection of irregularities, including fraud. We are not required to search specifically for such matters and our audit should not therefore be relied on to disclose them. However, we will plan and conduct our audit so that we have a reasonable expectation of detecting material misstatements in the accounts resulting from irregularities, including fraud or breach of regulations.
13. We will report in writing to the head of institution any serious weaknesses, fraud, irregularities or accounting breakdowns we come across in the normal course of our duties and, where the head of institution refuses to make a report, to the governing body and to the funding council's accounting officer without delay.

Other work

14. We may be asked from time to time to provide additional services beyond the scope of the audit described above. This could involve investigation work and value for money reviews. Precise requirements will be agreed between the governing body and ourselves in a separate engagement letter before any work is undertaken. Any systems development or consultancy work will be the responsibility of separate staff.

Access

15. We shall have rights of access at all times to the books, accounts and vouchers of the institution and to such information and explanations as we think necessary to perform our duties. We also expect to have access to internal audit files and working papers. We, in turn, agree to comply with any requests from the internal auditors and the relevant funding council for access to any information, files or working papers obtained or prepared during our audit which they need to discharge their responsibilities. Where necessary, the funding council's auditors will exchange letters dealing with confidentiality and the terms under which access is given with both parties.
16. We shall have the right of access to the chair of the audit committee, the right to ask the chair to convene a meeting of the committee if necessary, and the right to attend audit committee meetings where relevant business is to be discussed.

Annual meetings

17. We will be entitled to attend the meeting of the governing body to which the institution's annual reports and financial statements of accounts are presented. We will also be entitled to receive all notices of and other communications relating to that meeting which any member of the governing body is entitled to receive, and to be heard at any such meeting on any part of the business which concerns us as auditors.

Termination of appointment

18. We understand that if there are serious shortcomings on our part the governing body may pass a resolution to remove us before the expiry of our term of office, notwithstanding any agreement between us and the institution.

Fees

19. [A paragraph setting out the auditor's terms for charging and collecting fees should be included.]

Other terms

20. [Auditors may include certain additional paragraphs for internal purposes, for example on confidentiality, conflicts of interest, quality of service, complaints procedure and legal jurisdiction.]

Agreement of terms

21. If the contents of this letter are not in accordance with your understanding of the arrangements made, we shall be pleased to receive your observations and give you any further information you require. Otherwise we shall be grateful if you would confirm in writing your agreement to the terms of this letter by signing the enclosed copy and returning it to us. Once agreed, this letter will remain effective from one audit appointment to another until it is replaced.

Yours sincerely

[Signed by auditors]

On behalf of the governing body of, I confirm that the above terms are satisfactory.

Signed

Position

Date

Appendix 13 Internal audit: model terms of reference

The internal audit service is responsible for providing an objective, independent appraisal of all the institution's activities, financial and otherwise. It should provide a service to the whole organisation, including the governing body and all levels of management. It is not an extension of, nor a substitute for, good management, although it can have a role in advising management. The internal audit service is responsible for evaluating and reporting to the institution's governing body and head of institution, thereby providing them with assurance on the arrangements for risk management, control and governance, and VFM. It remains the duty of management, not the internal auditor, to operate these arrangements.

Scope

All the institution's activities, funded from whatever source, fall within the remit of the internal audit service. The internal audit service will consider the adequacy of controls necessary to secure propriety, economy, efficiency and effectiveness in all areas. It will seek to confirm that management has taken the necessary steps to achieve these objectives and manage the associated risks.

The scope of internal audit work should cover all operational and management controls, and should not be restricted to the audit of systems and controls necessary to form an opinion on the financial statements. This does not imply that all systems will be subject to review, but rather that all will be included in the audit risk assessment and hence considered for review following the assessment of risk. It follows that if internal audit is to give an opinion on the whole system, then that will include academic operations. The role of internal audit in this area is to confirm that there are adequate systems for the management of teaching and learning and research. For example, internal audit could confirm that the examination system is operating effectively and meeting its objectives, but this does not mean that internal audit should form academic judgements. Similarly, internal audit might review a research grant to ensure that the requirements of the grant have been met, but it should not form a view on the merit of the research undertaken.

It is not within the remit of the internal audit service to question the appropriateness of policy decisions. However, internal audit is required to examine the arrangements by which such decisions are made, monitored and reviewed, and related risks identified and managed.

The internal audit service may also conduct any special reviews requested by the governing body, audit committee or head of institution, provided such reviews do not compromise its objectivity or independence, or achievement of the approved audit plan.

Responsibilities

The head of the internal audit service is required to give an annual opinion to the governing body and head of institution, through the audit committee, on the adequacy and effectiveness of the arrangements for risk management, control and governance and for economy, efficiency and effectiveness (value for money) within the institution, and the extent to which the governing body can rely on these. The head of internal audit should also comment on other activities for which the governing body is responsible, and to which the internal audit service has access. To provide the required assurance, the internal audit service will undertake a programme of work, based on a strategy authorised by the governing body or the audit committee. The programme will evaluate the arrangements in place to:

- a. establish and monitor the achievement of organisational objectives

- b. identify, assess and manage risks to the achievement of those objectives
- c. assess compliance with policies, laws and regulations
- d. ascertain the integrity and reliability of financial and other information provided to management and stakeholders, including that used in decision-making
- e. ascertain that systems of control are laid down and operate to promote the economic, efficient and effective use of resources and to safeguard assets.

Standards and approach

The internal audit service's work will be performed with due professional care, in accordance with appropriate professional auditing practice. It will have regard to Treasury and Institute of Internal Auditors standards and will comply with the relevant Code of Audit Practice.

In achieving its objectives, the internal audit service will develop and implement an audit strategy that assesses the institution's arrangements for risk management, control and governance and for achieving value for money.

The head of internal audit will implement measures to monitor the effectiveness of the service and compliance with standards. The audit committee will consider and approve these performance measures and may also ask the external auditor to provide an independent assessment of internal audit's effectiveness.

Independence

The internal audit service has no executive role, nor does it have any responsibility for the development, implementation or operation of systems. However, it may provide independent and objective advice on risk management, control and governance, value for money and related matters, subject to resource constraints. For day-to-day administrative purposes only, the head of internal audit should report to a senior officer within the institution, such as the institution's clerk or secretary. (The reporting arrangements should take account of the nature of audit work undertaken.) The head of internal audit shall have right of access to the institution's head of institution.

Within the institution, responsibility for risk management, control and governance arrangements and the achievement of value for money rests with the governing body and management, who should ensure that appropriate and adequate arrangements exist without reliance on the institution's internal audit service. Where there are differences of opinion between internal audit and management, the governing body (on the advice of the audit committee) should ultimately determine whether or not to accept audit recommendations, recognise and accept the risks of not taking action, and instruct management to implement recommendations.

Access

The internal audit service has rights of access to all the institution's records, information and assets which it considers necessary to fulfil its responsibilities. Rights of access to other bodies funded by the institution should be set out in the conditions of funding. The head of internal audit has a right of direct access to the chair of the governing body, the chair of the audit committee and the head of institution. In turn, the internal audit service agrees to comply with any requests from the external auditors and funding council auditors for access to any information, files or working papers obtained or prepared during audit work which they need to discharge their responsibilities.

Reporting

The head of the internal audit service must submit an annual report to the governing body and head of institution through the audit committee. This report must relate to the institution's financial year, and include any significant issues affecting the opinion up to the date of preparing the report. The report should give an opinion on the adequacy and effectiveness of the institution's arrangements for:

- risk management, control and governance
- economy, efficiency and effectiveness

and the extent to which the governing body can rely on them.

The auditor should also prepare, before the beginning of the year, an audit risk assessment and audit plan supported by an assessment of resource needs. These should be submitted to the governing body for approval following consultation with relevant managers and the head of institution, and after consideration by the audit committee.

The head of the internal audit service is accountable to the head of institution and the governing body through the audit committee for the performance of the service. The head of internal audit should also report audit findings to relevant managers (including the head of institution) and draw the attention of the audit committee to key issues and recommendations. This may be done by providing the committee with copies of all reports, or by reporting on an exception basis, or by providing a summary of key issues.

The internal audit service should usually produce its reports, in writing, within one month of completing each audit, giving an opinion on the system reviewed and making recommendations to improve systems where appropriate. Such reports may be copied to the head of institution and should be copied to the audit committee and the external auditor, entirely or in summary. Managers will be required to respond to each audit report, usually within one month of issue, stating their proposed action with a timetable for implementing agreed recommendations. Material recommendations will usually be followed up within a defined timescale. In addition, the audit committee will monitor the implementation of audit recommendations.

The head of the internal audit service should report to the head of institution any serious weaknesses, significant fraud or major accounting breakdown discovered during the normal course of audit work. If the head of institution refuses to report the matter to the funding council accounting officer, the chair of the audit committee and the chair of the governing body, then the auditor must report to them directly.

Liaison

The internal audit service will liaise with the external auditors and the funding council's auditors to optimise the audit services provided to the institution.

Appendix 14 Specimen internal audit plan

The role of internal audit is to provide an independent, objective opinion on an institution's risk management, internal control and governance and the processes in place for ensuring effectiveness, efficiency and economy.

Each audit plan will be different and tailored to the institution's needs. However, there are common elements that the audit committee should expect to see when reviewing the audit plan, albeit in practice these elements might be presented in many different ways. These elements are as follows.

1. Overview of the audit approach

The audit committee should expect the audit planning document to set out that the audit plan has been developed by:

- taking account of the risks identified by the institution in its risk register and other documents
- using the internal auditor's experience of the institution and the sector more generally to identify other areas of risk which may warrant attention
- discussing all identified risks and other relevant issues with the institution's management to identify the potential scope of internal audit.

2. Risk-focused internal audit coverage

Where the institution's risk management policy allocates each risk a likelihood and impact rating between 'high' and 'low', the audit plan might for example focus on 'high' and 'medium' priority risks over (say) a three-year period. However the internal audit is focused, the audit committee should be fully informed of:

- which areas are being addressed
- how many audit days have been allocated to each area
- when the fieldwork is being undertaken
- when the internal auditors will report their findings.

Exhibit 1 (below) illustrates which risks identified by the institution in the risk register are addressed by the internal audit plan. Exhibit 2 puts these risks in the context of a three-year audit plan. It is also useful to keep the audit committee apprised of the risks that are not addressed by the internal audit plan – see Exhibit 3.

3. Other reviews

The internal audit strategy may address some areas that do not feature as a high or medium risk. These are nevertheless areas where the institution would benefit from an internal audit review, or they are being reviewed to provide assurance to the audit committee and external auditors regarding operation of the key financial and management information systems. The audit days, fieldwork and reporting expectations for these areas should also be identified in the audit plan.

4. Contingencies

It is important to adopt a flexible approach in determining internal audit resources, in order to accommodate any unforeseen audit needs. The audit plan should give an indication as to how many 'man days' have been allowed for contingencies.

5. Follow-up

For internal audit to be as effective as possible, its recommendations need to be implemented. Specific resources should be included within the plan to provide assurance to the institution and the audit committee that agreed audit recommendations have been implemented effectively and on a timely basis.

6. Planning, reporting and liaison

The audit committee should expect the internal audit plan to identify a number of audit days relating to the following:

- quality control review by manager
- production of reports, including the strategic plan and annual internal audit report
- attendance at audit committee meetings
- regular contact with the institution's management
- liaison with external audit
- internal quality assurance reviews.

7. The internal audit team

Where the internal audit is outsourced, the audit committee (and management) should expect a brief introduction to the key individuals working on the audit. This might include partners, managers and any specialist advisers.

8. Timing

The audit plan should set out the timing of the fieldwork and confirm the form and timeliness of reports to management and the audit committee. For example:

- a report for each area of work undertaken within X days of finishing the fieldwork
- a progress report for each audit committee meeting
- an annual report on internal audit coverage to the audit committee (reporting to fit in with the committee meeting dates).

Exhibit 4 outlines how the timing might be presented for an internal audit carried out in three phases to coincide with the audit committee timetable.

9. Internal audit performance indicators

The internal auditor might propose a series of performance indicators against which management and the audit committee can measure the audit's performance. An example of proposed indicators is included as Exhibit 5.

Exhibit 1: Internal audit plan – focus on the institution’s key risks

Risk identified in the University’s risk register	Ranking	Internal audit reviews over a three-year period
1. Failure of the new finance system	High	Finance system implementation
2. Reliance on small number of specialised staff	High	IT
3. Security issues	High	IT
4. Ineffective project assessment procedures	Medium	Contract management
5. Non-performance of contracts	Medium	Contract management/departmental reviews
6. Poor procurement of projects	Medium	Estates
7. Failure to protect intellectual property	Medium	Intellectual property management
8. Statutory non-compliance (H&S)	Medium	Health and safety
9. Non-prevention of foreseeable accidents	Medium	Health and safety
10. Failure to adequately manage occupational stress	Medium	Human resources
11. Failure to attract and retain high-quality staff	Medium	Human resources
12. Non-financial control failure	Medium	Key financial systems/academic department reviews
13. Fraud, theft and misuse of assets	Medium	Key financial systems/academic department reviews
14. Breach of financial memorandum	Medium	Key financial systems – treasury management
15. Poor publication quality/quantity	Medium	Research
16. Too little research contract/grant growth	Medium	Research/departmental reviews
17. Reputation unclear or fragmented	Medium	Strategic planning
18. Ineffective faculty business planning	Medium	Strategic planning/academic department reviews
19. Failure to consider future strategies	Medium	Strategic planning
20. Failure to attract high-quality students	Medium	Student admissions/marketing
21. Poor student experience	Medium	Student experience/student admissions
22. High-profile students’ complaints	Medium	Student admissions/student experience
36. Claw back of project funding	Low*	Contract management/research/departmental reviews
37. Unsatisfactory procurement procedures	Low*	Key financial systems – purchasing
38. Failure to meet recruitment targets	Low*	Marketing/student admissions
39. Loss/non-performance on research contracts	Low*	Research/contract management
40. Financial mismanagement at the Student Union	Low*	Student Union

* Although categorised as a ‘low’ risk, this will be covered within a review of higher risks.

Exhibit 2: Three-year rolling plan

Internal audit reviews	Current year	Year 2	Year 3	Total days
Risk-based reviews				
a. Contract management	-	-	15	15
b. Departmental reviews	-	25	20	45
c. Estates	-	-	15	15
d. Finance system implementation	50			50
e. Key financial systems	-	25	25	50
f. Health and safety	15	-	-	15
g. Human resources	15	-	-	15
h. Intellectual property management	15	-	-	15
i. IT systems	20	15	15	50
j. Marketing	-	-	15	15
k. Research	-	-	15	15
l. Strategic planning	20	-	-	20
m. Student admissions and the student experience	-	15	-	15
n. Student Union	5	10	10	25
Total risk-based days	140	90	130	360
Other reviews				
o. Risk management	10	8	8	26
p. Corporate governance	-	7	-	7
q. Corporate structures	-	-	22	22
r. Costing processes	-	15	-	15
s. Sickness management	-	15	-	15
t. Student information system	25	15	-	40
u. UUK* student housing code of practice	15	-	-	15
Total other review days	50	60	30	140
Other				
v. Contingency	8	8	8	24
w. Follow-up	8	8	8	24
x. Planning, reporting and liaison	34	9	9	52
Total other days	50	25	25	100
Total days	240	175	185	600

* Universities UK

Exhibit 3: Risks not subject to internal audit review

Risk	Ranking
23. Too few PhDs	Medium
24. Defamation/professional negligence	Medium
25. Poor student behaviour	Medium
26. Necessity for redundancies	Medium
27. Fire/explosion	Medium
28. Failure to attract philanthropic support	Medium
29. Influential connections lost	Medium
30. Poor international visibility	Medium
31. Poor external evaluations	Medium
32. Failure to prevent a major incident	Medium
33. Failure to adopt equal pay provisions	Medium
34. Failure to prevent dismissals	Medium
35. Negligence of staff/students	Medium
41. Missed commercial opportunities	Low
42. Failure to adequately manage disability issue	Low
43. Failure to prevent major health incident	Low
44. Student suicide	Low
45. Failure to adequately manage disability issue	Low
46. Statutory non-compliance – services	Low
47. Failure to prevent outbreak of food poisoning	Low
48. Loss of status	Low
49. Sport has reduced impact on the student experience	Low
50. Building collapse	Low
51. Alumni feel unconnected or disenfranchised	Low
52. Exposure to higher interest rates	Low

Exhibit 4: Annual plan 2007-08

Internal audit reviews	Current year	Phase	Fieldwork	Report to audit committee
Risk-based reviews				
d. Finance system implementation	50	All phases	All audit visits	Feb/May/ Oct meeting
f. Health and safety	15	Phase 2	w/c 26.02.2008	31.05.2008
g. Human resources	15	Phase 1	w/c 20.11.2007	08.02.2008
h. Intellectual property management	15	Phase 2	w/c 26.02.2008	31.05.2008
i. IT systems	20	Phase 1	w/c 20.11.2007	08.02.2008
l. Strategic planning	20	Phase 1	w/c 20.11.2007	08.02.2008
n. Student Union	5	Phase 3	w/c 14.05.2008	09.10.2008
Total risk-based days	140			
Other reviews				
o. Risk management	10	Phase 2	w/c 26.02.2008	31.05.2008
t. Student information system	25	Phase 2	w/c 26.02.2008	31.05.2008
u. UUK student housing code	15	Phase 3	w/c 14.05.2008	09.10.2008
Total other review days	50			
Other				
v. Contingency	8			
w. Follow-up	8	Phase 3	w/c 14.05.2008	09.10.2008
x. Planning, reporting and liaison	34			
Total other days	50			
Total days	240			

Exhibit 5: Performance indicators

Performance indicator	Target
Percentage of audit work delivered by qualified staff	60%
Operational plan to be submitted by September each year	September of each year
Follow-ups to be performed within 1 year of the audit taking place	Within 1 year of assignments
Issue of draft reports within 30 days of work being completed	30 working days
Issue of final report within 10 working days of receipt of management responses	10 working days
Recommendations made compared with recommendations accepted	80%
Internal audit attendance at audit committee meetings	100%
Issue of internal audit annual report	September of each year

Appendix 15 Specimen internal audit report

The role of internal audit is to provide an independent, objective opinion on an institution's risk management, internal control and governance and the processes in place for ensuring effectiveness, efficiency and economy.

Each audit report will be different and tailored to the institution's needs. However, there are common elements that the audit committee should expect to see when reviewing the audit reports, or a summary of those reports, albeit in practice these elements might be presented in many different ways. These elements are as follows.

Background and introduction – places the audit report within the context of the overall audit plan.

Definitions – defines any 'priority' or 'risk' terminology used in the report. For example:

- *High* – inadequate systems and controls which if not addressed could expose the institution to significant financial, operational or reputational risk and adversely impact on implementation of its strategic plan.
- *Medium* – systems and controls which are not fully effective, and failure to improve them could adversely affect operational plans at departmental level.
- *Low* – good practice dictates that some enhancements to existing systems and controls are desirable.

Objectives – describes the purpose of the audit.

Executive summary – a summary of the key observations, findings and recommendations. This section might deal only with those findings deemed high risk or priority.

Observations and findings – details of the control weaknesses identified during the audit, together with any other observations.

Opinion – sets out the auditor's opinion of the systems being audited.

Summary – sets out:

- risk management and control weaknesses
- recommendations to enhance risk management and controls
- the priority of the recommendation
- management's response
- responsibility for action
- implementation timetable.

It is particularly important for the audit committee to ensure follow-up on internal audit recommendations, to make sure that management is taking effective corrective action in a timely manner:

A specimen summary audit committee report is included below.

Specimen audit report on compliance with financial regulations

Observation	Implication	Risk/priority	Recommendation	Management response	Responsibility	Completion
A number of detailed policies within the financial regulations are not being followed in practice.	The policies and procedures in question may be outdated. Nevertheless, such a breakdown encourages a 'pick and choose' approach which discourages consistency and weakens the control environment within the institution.	Low	We recommend that the policies and procedures be reviewed and updated where necessary. The new policies should be communicated throughout the institution along with a reminder that compliance is not optional.	Agreed. The policies and procedures will be reviewed and communicated via normal channels.	Head of finance	February 2008

Appendix I6 Evaluation of internal audit

The following is a four-part checklist of questions to consider as part of a complementary framework for assessing the internal audit function. Section A addresses the audit committee's own perceptions of the internal audit function. Where appropriate, Sections B, C and D can be used to record the views of management, the external auditor and, where the institution has its own in-house internal audit function, the head of internal audit (i.e. self-assessment).

Section A

This part of the checklist should be completed by the audit committee prior to feedback from other areas of the organisation.

Understanding

1. How well does internal audit demonstrate that it:

Recognises its direct reporting responsibility to the governing body and the audit committee?

Strong Adequate Needs improvement

Has a strong understanding of the responsibilities and operation of the audit committee?

Strong Adequate Needs improvement

Understands the expectations of the audit committee and the governing body?

Strong Adequate Needs improvement

Understands the institution's business and risk environment?

Strong Adequate Needs improvement

Comments

Charter and structure

1. Do the terms of reference for the internal auditor define:

Roles and responsibilities, including those in relation to other internal functions?

Yes No

Expectations of management?

Yes No

Scope of internal audit work?

Yes No

Access to information?

Yes No

2. Evaluate internal audit's terms of reference in light of the institution's current and future needs.

Strong Adequate Needs improvement

3. Are internal audit's terms of reference visible to all appropriate people within the institution?

Yes No

Comments

Skills and experiences

1. How well does internal audit's staffing reflect its roles and responsibilities?
Strong Adequate Needs improvement
2. On the basis of the work performed by internal audit over the past 12 months, does it appear to have the right staff mix and competences in any specialist areas?
Yes No
3. Evaluate internal audit's independence from the activities it audits.
Strong Adequate Needs improvement
4. How would you assess the committee's confidence in internal audit?
Strong Adequate Needs improvement

Comments

Communication

1. Has internal audit attended all the audit committee meetings it was scheduled to attend?
Yes No
2. Has internal audit made itself available for consultation outside of audit committee meetings?
Yes No
3. Evaluate internal audit's responsiveness to requests from the audit committee, including requests for special investigations.
Strong Adequate Needs improvement
4. Evaluate internal audit's frankness and candour with the committee.
Strong Adequate Needs improvement
5. Evaluate internal audit's handling of difficult or contentious issues.
Strong Adequate Needs improvement
6. Does internal audit ensure that the chair of the audit committee is fully briefed on significant findings or developments prior to audit committee meetings?
Yes No
7. Evaluate the usual level of preparation for audit committee meetings demonstrated by internal audit.
Strong Adequate Needs improvement
8. Evaluate the quality, relevance and clarity of internal audit reports/papers tabled with the committee.
Strong Adequate Needs improvement
9. Have reports been received from internal audit on a sufficiently timely basis?
Yes No
10. Does internal audit promptly advise the audit committee about significant issues and developments, including on special projects such as fraud investigations?
Yes No
11. Does internal audit promptly advise the committee about significant changes to the internal audit plan?
Yes No
12. Evaluate the strength of internal audit's process for monitoring the status of open matters/recommendations.
Strong Adequate Needs improvement

13. Has internal audit contributed to the committee's understanding of the overall assurance framework within the organisation and the role that internal audit plays in this framework? Yes No

Comments

Performance

- 1. Assess the quality of the internal audit plan in terms of its:
Comprehensiveness, clarity and timeliness
Strong Adequate Needs improvement
Coverage of priority and high-risk areas
Strong Adequate Needs improvement
- 2. Did the original internal audit plan leave unanswered any significant issues of concern to the audit committee? Yes No
- 3. Is it clear from its reporting to the committee that internal audit:
Has delivered the services outlined in the plan? Yes No
Has been in accordance with the agreed timetable? Yes No
Has performed the audit work necessary to reach its opinions/conclusions? Yes No
- 4. Is there evidence of effective co-ordination of internal and external audit work? Yes No
- 5. Are success measures (or key performance indicators) used for evaluating the performance of the internal audit function and, if so, have they been achieved? Yes No
- 6. Do you consider that internal audit has added value to the institution? Yes No
- 7. In what way has internal audit added value to the institution? Yes No
- 8. How would you assess internal audit's overall performance? Strong Adequate Needs improvement

Overall comments

Name
Position Audit Committee Chair
Signed
Date

Section B

This part of the checklist should be completed by the head of finance and/or other senior managers and officers who have regular contact with the internal auditor.

Planning

1. Are internal audit's terms of reference sufficiently visible to everyone within the institution? Yes No
2. Has there been sufficient pre-planning and co-ordination by the internal auditors before the start of each phase of the internal audit or special project? Yes No
3. Has internal audit discussed its approach and major areas of audit focus with you? Yes No
4. Have you raised any major areas of concern that have not been reviewed by the internal audit team? Yes No

Comments

Skills and experience

1. Do you consider that the internal audit team have sufficient expertise, professional experience, project management ability, interpersonal skills and seniority to effectively carry out the work required? Yes No
2. Assess the strength of internal audit's understanding of the institution and its risk involvement. Strong Adequate Needs improvement
3. How strongly have the members of the internal audit team demonstrated an appreciation of the issues key to your role and responsibilities? Strong Adequate Needs improvement
4. Have members of the internal audit team consistently demonstrated independence in all their deliberations? Yes No
5. Have members of the internal audit team been adequately supervised? Yes No

Comments

Work programme

1. Has effective co-operation been achieved between the internal auditors and your department, including avoidance of undue disruption to normal activities? Yes No
2. Is there a formal process to ensure that internal audit keeps you up to date with audit/project progress? Yes No

3. Has internal audit provided early identification and advice regarding contentious issues, problem areas and delays?

Yes No

4. Has internal audit suggested how such issues could be resolved?

Yes No

5. Were such suggestions realistic, robust and presented clearly and on a timely basis?

Yes No

6. How responsive has internal audit been to the institution's needs, including requests for special investigations?

Strong Adequate Needs improvement

7. Are internal audit reports:

Relevant, clear and constructive?

Yes No

Sufficiently detailed to provide assurance that the necessary audit work has been carried out to support the opinions/conclusions?

Yes No

Sufficiently detailed to enable effective management action?

Yes No

Issued on a timely basis?

Yes No

8. Have internal audit findings been discussed with you prior to being tabled with the audit committee?

Yes No

9. Has internal audit followed up recommendations to see if they have been implemented?

Yes No

10. Do you have any major unresolved disagreements with internal audit?

Yes No

Overall performance

1. Has internal audit added value to the institution? Yes No

2. In what ways has internal audit added value to the institution?

Overall comments

Name

Position

Signed

Date

Section C

This checklist should be completed by the external auditor.

Terms of reference

1. Evaluate internal audit's current terms of reference given your understanding of the institution, its risk environment and current developments in internal audit.
Strong Adequate Needs improvement
2. From your knowledge of internal audit and industry best practice, do you consider that internal audit's current terms of reference are maintained at a high-quality level?
Yes No

Comments

Skills and experience

1. Do you consider the internal audit team to have the professional experience, technical skills, interpersonal skills and seniority to effectively carry out the internal audit work required?
Yes No
2. Evaluate the senior members of the internal audit team's understanding of the institution, its business and its risk environment.
Strong Adequate Needs improvement
3. From your dealings with members of the internal audit team and your knowledge of internal audit and industry best practice, evaluate the sufficiency of internal audit's resources to adequately deliver the services outlined in its internal audit plan within the timeframes identified.
Strong Adequate Needs improvement
4. Does internal audit's staffing appear to adequately reflect its roles and responsibilities?
Yes No
5. In your assessment, is the internal audit methodology robust and does it reflect the latest thinking in internal audit?
Yes No

Comments

Work programme

1. Are there regular discussions between internal and external audit on strategies for internal and external audit, assessment of risks and the implications of audit findings/audit work?
Yes No
2. Has progress against the plan been monitored jointly by internal and external audit regularly throughout the year?
Yes No
3. Have you received copies of all internal audit reports issued by internal audit?
Yes No
4. Have copies of internal audit reports been received on a timely basis?
Yes No

5. Are internal audit reports of a standard comparable to best practice in other organisations? Yes No

6. To the best of your knowledge, are there any major areas of risk or concern that internal audit has not appeared to cover? Yes No

Overall comments

Name

Position

Signed

Date

Section D

Where the institution has its own in-house internal audit function, the audit committee might ask the head of internal audit to complete this checklist (i.e. self assessment).

Understanding

1. Evaluate internal audit's understanding of:

The responsibilities and operation of the audit committee

Strong Adequate Needs improvement

The institution

Strong Adequate Needs improvement

The institution's risk environment

Strong Adequate Needs improvement

The institution's control framework

Strong Adequate Needs improvement

Comments

Charter and structure

1. Do the terms of reference for internal audit define in sufficient detail for the purposes of directing internal audit:

Roles and responsibilities, including those in relation to other internal functions?

Yes No

Expectations of the governing body/audit committee, officers and management?

Yes No

Scope of internal audit work?

Yes No

Access to information?

Yes No

2. Evaluate internal audit's current terms of reference in light of the organisation's current and future needs. Strong Adequate Needs improvement

Overall comments

Name

Position

Signed

Date

Appendix 17 Assessment of the audit committee

This self-assessment has been prepared for audit committees in the higher education sector. It is intended that each audit committee member will complete it independently. The assessment exercise could be carried out at a special meeting of the audit committee or at some form of away-day.

The audit committee chair or an external facilitator should, after collating the responses, lead a discussion on the key points arising from the questionnaire and feed back any matters of interest, focusing on those areas which clearly need improvement or where there is great variation in answers. When using a facilitator, care needs to be taken if this person is in some way conflicted because of the closeness of his or her relationship with the audit committee; for example, a degree of circularity is involved in using internal or external auditors, as the audit committee has a responsibility to review the auditors' performance.

The results of the self-assessment and any action plans arising should be reported to the governing body after discussion with the chair of the governing body.

Audit committee chairs may wish to tailor this checklist to the specific circumstances of their institution, giving more weight to some aspects of the self-assessment than others.

Appropriate weighting will be influenced by a number of factors including, but not limited to:

- the committee's terms of reference
- the institution's strategies and risk assessments
- the institution's risk and control environment
- the outcomes of previous self-assessments
- the stage of maturity of the audit committee
- the views of stakeholders on the institution's corporate governance performance
- current and emerging trends and factors.

Audit committee chairs may wish to adapt the questionnaire such that the full version is carried out on a cyclical basis, say every three to five years. In the intervening years, they may choose to evaluate the committee's effectiveness by means of a general discussion around the audit committee table, or by using a curtailed form of the questionnaire.

	Use as appropriate					What could be done better?
	Yes	No	More satisfied		Less satisfied	
			1	2		
A. Creating an effective audit committee						
1. Have the audit committee's terms of reference been approved by the governing body?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the audit committee review annually its terms of reference and recommend any necessary changes to the governing body?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Is there clarity around what is expected of the committee (e.g. how the committee supports the governing body in discharging its responsibility for governance, risk and control and for VFM)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are committee members independent of the institution's management, and do they exercise their own judgement, voice their own opinions and act freely from any conflicts of interest?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Are committee members appointed by the governing body on the basis of agreed criteria, and are appropriate succession plans in place?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the audit committee have sufficient skills, experience, time and resources to undertake its duties, including at least one member with recent and relevant experience in finance, accounting or auditing?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Is the committee over-reliant on any individual member (e.g. the member with recent and relevant experience in finance, accounting or auditing)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

8. Does the committee have sufficient understanding of the institution and the sector (e.g. how the institution operates within the sector; training and research, quality, data management, national funding mechanisms, importance of student numbers and profile)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Do all committee members demonstrate the highest level of integrity (including maintaining utmost confidentiality and identifying, disclosing and managing conflicts of interest)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
10. Does the audit committee have access to appropriate secretarial services?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
11. Are funds available to enable the committee to take independent legal, accounting or other advice when it reasonably believes it necessary to do so?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
B. Running an effective audit committee									
1. Does the audit committee chair have an effective leadership style (e.g. decisive, open-minded, courteous, sets a good example, allows members to contribute, holds members to high standards)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Does the audit committee chair ensure a healthy dynamic (e.g. relates well to other members/attendees, deals effectively with dissent and works constructively towards consensus)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the chair ensure that the audit committee's workload is dealt with effectively?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Does the audit committee work constructively as a team?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the committee maintain constructive working relationships with those individuals who attend its meetings?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Does the relationship between the audit committee and a) the vice chancellor/chief executive and b) members of the senior management team strike the right balance between challenge and mutuality?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<p>7. Do the committee's discussions enhance the quality of management's decision-making (e.g. does the committee engage those reporting to it in dialogue that stimulates and enhances their thinking and performance)?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>8. Does the committee provide effective support to the governing body in fulfilling its responsibilities and adding value to the institution?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>9. Does the committee have a comprehensive work plan that covers its main responsibilities and maps across to the requirements of the funding councils (e.g. Audit Code of Practice)?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>10. Do the meeting arrangements enhance the audit committee's effectiveness (e.g. frequency, timing, duration, venue and format)?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>11. Do audit committee meetings allow sufficient time for the discussion of substantive matters?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>12. Are meeting agendas and related background information circulated in a timely manner to enable full and proper consideration to be given to the issues?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>13. Are the papers provided to the audit committee appropriate (e.g. not overly lengthy and clearly explaining the key issues and priorities)?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>14. Is sufficient time allowed between audit committee meetings and meetings of the governing body to allow any work arising to be carried out and reported to the governing body as appropriate?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>15. Is the audit committee free from inappropriate management influence during meetings?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>16. Are meeting attendees (e.g. officers and auditors) appropriately involved in audit committee meetings?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>17. Are arrangements in place for the audit committee to meet with the external and internal auditors during the year without the presence of management?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

18. Are the meeting minutes clear, accurate, consistent, complete and timely, and do they include key elements of debates, appropriate details of recommendations and any follow-up action?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
19. Does the follow-up process for outstanding actions arising from audit committee meetings work well?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
20. Do the auditors (internal and external) co-operate appropriately to ensure the completeness of assurance coverage?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
21. Is the dialogue with/from internal and external auditors and management appropriate given the work the audit committee undertakes? Is 'bad news' communicated to the committee in a timely manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
22. Is the committee kept fully informed on all material matters between meetings, including appropriate external information (e.g. emerging risks and material regulatory changes)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
23. Does the audit committee report to the governing body on a timely and accurate basis, and are such communications comprehensive, meaningful and focused?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
C. Professional development									
1. Is an induction programme provided for new audit committee members (e.g. the committee's role, terms of reference and expected time commitment by members; overview of the institution; and the main operational and financial dynamics and risks)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Do audit committee members receive appropriate and timely ongoing professional development (e.g. regulatory matters, accounting and financial reporting, audit and risk)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Do audit committee members have the opportunity to attend formal courses and conferences, internal talks and seminars, and briefings by external advisers such as the institution's auditors and lawyers?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<p>4. Do the induction and professional development programmes adequately equip audit committee members to understand the sector (e.g. operational and financial risks facing institutions within the sector; training and research quality; data management, national funding mechanisms; importance of student numbers and profile) ?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>D. Overseeing financial reporting</p>							
<p>1. Does the audit committee have effective mechanisms to understand and gain confidence over the: appropriateness of the institution's critical accounting policies, estimates and judgements?</p> <ul style="list-style-type: none"> • clarity and completeness of disclosures in the financial statements? • impact on the financial statements of any developments in accounting standards or generally accepted accounting practice? • statement of internal control included in the financial statements and the basis on which it is given? 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>2. If the audit committee were not satisfied with any aspect of the proposed financial reporting, would it report such views to the governing body and seek changes?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>3. Does the governing body publish a balanced, comprehensive annual report on a timely basis?</p>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<p>E. Overseeing governance, risk management and internal control</p>							
<p>1. Is the audit committee satisfied that appropriate processes are in place to:</p> <ul style="list-style-type: none"> • ensure that the governing body and the management team conduct themselves in accordance with high standards of behaviour? • ensure compliance with applicable regulation and best practice recommendations? • ensure the appointment of appropriate individuals to the governing body, key committees and senior management positions? 	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

<ul style="list-style-type: none"> • ensure appropriate communication with the institution's stakeholders, including the funding councils? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> • clearly articulate the institution's risk appetite for each material category of risk? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> • identify, evaluate and monitor key risks facing the organisation (including financial, strategic and operational – such as failure to attract and retain high-quality students, maintaining excellence in research and teaching, and unpredictable government funding policy – as well as reputational)? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> • enable it to understand how each material risk may impact on the institution's operations and financial condition? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> • monitor changes in the institution's risk profile? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> • provide it with suitable reports on the effectiveness of the systems of internal control? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> • ensure that the system of key controls is fit for purpose and working as intended? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> • ensure that public funds are properly safeguarded? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>F. Overseeing value for money</p>
<ol style="list-style-type: none"> 1. Are appropriate processes and procedures in place to ensure: <ul style="list-style-type: none"> • that public funds are spent for their intended purpose? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> • the economy, efficiency and effectiveness of the institution's operations? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
<p>G. Overseeing external audit</p>
<ol style="list-style-type: none"> 1. Does the external auditor dedicate appropriately qualified and experienced staff and resources to the institution's audit? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 2. Does the external audit partner make appropriate use of their direct access to the audit committee? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 3. Are the independence and objectivity of the external auditor compromised in any way? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> 4. Are the nature and extent of non-audit services provided by the auditors appropriate? <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

5. Does the external audit plan focus on the institution's key risks and controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Is the external audit plan reviewed and approved by the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does the audit committee have an appropriate dialogue with the external auditor regarding major issues arising during the course of the audit, the key accounting and audit judgements and the levels of errors identified during the audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Does management respond to external audit recommendations in a timely and appropriate manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
9. Does the audit committee regularly review the effectiveness of the external audit?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
H. Overseeing internal audit									
1. Is the institution's internal audit function appropriately resourced (whether in-house, co-sourced or outsourced)?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
2. Is the audit committee comfortable with the quality of internal audit work?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
3. Does the head of internal audit make appropriate use of his/her direct access to the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
4. Are the independence and objectivity of internal audit compromised in any way?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
5. Does the internal audit plan focus on the institution's key risks and controls?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
6. Is the internal audit plan reviewed and approved by the audit committee?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
7. Does management respond to internal audit's recommendations in a timely and appropriate manner?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
8. Does the audit committee regularly review the effectiveness of the internal audit function?	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

Appendix 18 Glossary of terms, abbreviations and acronyms

Glossary of terms

The diversity of the higher education sector means that a wide range of terminology is used in matters of governance. The following terms have therefore been used in this handbook to cover those which are broadly analogous.

Governing body	The university court (in Scotland), council, board of governors or other body ultimately responsible for the affairs of the institution.
Chair	The chairman, chairwoman, pro-chancellor or other person who takes the chair at meetings of the institution's governing body.
Secretary	The clerk to the governing body, registrar, secretary or other person responsible for convening and arranging for minuting the meetings of the governing body.
Funding council	The Higher Education Funding Council for England (HEFCE), the Scottish Funding Council (SFC), the Higher Education Funding Council for Wales (HEFCW) or, for the purposes of this handbook, the Department of Employment and Learning for Northern Ireland (DEL).

Abbreviations and acronyms

CUC	Committee of University Chairmen
DEL	Department for Employment and Learning (Northern Ireland)
HE	Higher education
HEFCE	Higher Education Funding Council for England
HEFCW	Higher Education Funding Council for Wales
HEI	Higher education institution
HESA	Higher Education Statistics Agency
LSC	Learning and Skills Council
NAO	National Audit Office
SFC	Scottish Funding Council (formerly SHEFC)
SHEFC	Scottish Higher Education Funding Council
SORP	Statement of Recommended Practice: Accounting for Further and Higher Education
TDA	Training and Development Agency for Schools
VC	Vice chancellor
VFM	Value for money

Appendix 19 Bibliography

Accountability and Audit: HEFCE Code of Practice, 2004, HEFCE

Audit Code of Practice, 2002, HEFCW

Audit Committee Handbook, 2007, HM Treasury

Audit Committees – Combined Code Guidance, 2006, Financial Reporting Council

Code of Audit Practice, 2000, SHEFC

Code of Audit Practice, 2001, Audit Scotland

CUC Report on the Monitoring of Institutional Performance and the Use of Key Performance Indicators, 2006, CUC

First Report of the Committee on Standards in Public Life (the Nolan Report), 1995, TSO

Guide for Members of Higher Education Governing Bodies in the UK, 2004, CUC

Guide for Members of Higher Education Governing Bodies of Scottish Higher Education Institutions and Good Practice Benchmarks, 1999, SHEFC

Handbook for Audit Committee Members in Further and Higher Education, 2005, CIPFA

Risk management in higher education: a guide to good practice, 2005, PricewaterhouseCoopers/HEFCE

Shaping the Audit Committee Agenda, 2006, KPMG



Cyngor Cyllido Addysg
Uwch Cymru
**Higher Education Funding
Council for Wales**

hefcw

Further copies of this Guide
are available from:

HEFCE
Northavon House
Coldharbour Lane
BRISTOL BS16 1QD

tel 0117 931 7317
fax 0117 931 7203
www.hefce.ac.uk

ISBN 1-902369-21-1