Public business

Review of Audit & Risk Committee terms of reference

Purpose
To consider proposals from the Audit & Risk Committee for changes to the Committee’s terms of reference.

Recommendation

The Council is asked to approve the revised terms of reference for the Audit & Risk Committee at Appendix 2.

1.0 Background

1.1 The Council has established an Audit & Risk Committee with the remit set out at Appendix 1.

1.2 The Committee held its first formal meeting on 29 October 2010 and agreed to propose draft revised terms of reference for the Council’s consideration. These are at Appendix 2.

1.3 The main points to note regarding the draft revised terms of reference are:
- the draft terms of reference provide more detail about how the Committee would fulfil its functions (App 2, section 4);
- the current remit states that the Committee’s remit does not include advising on the GPhC’s governance framework but encompasses looking at the governance framework from a risk perspective, in common with other internal controls (App 1, para 6). The draft terms of reference specify the Council’s role in determining the GPhC’s governance policy & framework, and refer to the Committee reviewing the adequacy of policies for ensuring compliance with relevant regulatory, legal, governance and code of conduct requirements (App 2, paras 4.2-4.3);
• the draft terms of reference state that the Committee will review the statutory annual report before its submission to the Council, as well as the annual accounts (App 2, para 4.7);
• the current remit states that representatives of the internal or external auditors may attend meetings at the invitation of the Chair (App 1, para 19). The draft terms of reference state that representatives of the internal auditors shall normally attend meetings, while representatives of the external auditors shall attend as required (App 2, para 6.1);
• the draft terms of reference state that senior representatives of internal and external audit shall have free and confidential access to the Chair of the Committee, and that the Committee should provide an opportunity to meet privately with the internal and external auditors at least once a year.

1.4 Any changes to the Committee’s terms of reference require approval by the Council.

2.0 Equality and diversity implications

2.1 There are no specific equality and diversity implications of these proposals. The Committee would consider equality and diversity aspects when reviewing the comprehensiveness and reliability of assurances and internal controls under its existing remit or under the proposed revised terms of reference.

3.0 Communications implications

3.1 The Committee’s terms of reference would be published on the GPhC’s website.

4.0 Resource implications

4.1 The implications of this policy can be met within anticipated resources.

5.0 Risk implications

5.1 The Audit & Risk Committee will continue to play a key role in risk management under its existing remit or the proposed revised terms of reference. In both cases, the Committee will continue to support the Council by reviewing the comprehensiveness and reliability of assurances and internal controls in meeting the Council’s oversight responsibilities. As part of this function, the Committee will:
  – monitor the GPhC’s risk management arrangements;
  – advise the Council on the comprehensiveness and reliability of assurances and internal controls, including internal and external audit arrangements; and
– advise the Council on the implications of assurances provided in respect of risk and control.

Recommendation

The Council is asked to approve the revised terms of reference for the Audit & Risk Committee at Appendix 2.

Duncan Rudkin, Chief Executive & Registrar, General Pharmaceutical Council
duncan.rudkin@pharmacyregulation.org, tel 020 3365 3501

2 November 2010
Appendix 1

Remit of Audit & Risk Committee

1. The Council has established the Audit & Risk Committee to support the Council by reviewing the comprehensiveness and reliability of assurances and internal controls in meeting the Council’s oversight responsibilities.

2. The Audit & Risk Committee’s remit is to:
   – monitor the GPhC’s risk management arrangements;
   – advise the Council on the comprehensiveness and reliability of assurances and internal controls, including internal and external audit arrangements; and
   – advise the Council on the implications of assurances provided in respect of risk and control.

3. In so doing, the Committee should draw attention to areas where:
   • risk is being appropriately managed and controls are adequate (no action needed)
   • risk is inadequately controlled (action needed to improve control)
   • risk is over-controlled (resource being wasted which could be diverted to another use)
   • there is a lack of evidence to support a conclusion (if this concerns areas which are material to the organisation’s functions, more audit &/or assurance work will be required).

The Committee has no executive responsibilities or powers other than approving the internal audit programme.

Dealing with concerns

4. Processes have been agreed for raising and dealing with concerns about staff or Council members that fall outside the remit of the GPhC human resources function (Council paper 02.10/C/11).

5. Within these processes, the GPhC Chair or the Chair of the Audit & Risk Committee may seek to resolve a concern raised by one Council member about another. If the concern is not resolved and is not referred to the Privy Council at this stage (as provided for in the GPhC Constitution Order), it should be referred to the Council or the Audit & Risk Committee. The Committee should seek to address any such concern referred to it or refer it to Privy Council if it believes there may be grounds for suspension or removal of a Council member.
Corporate Governance

6. The Committee’s remit does not include advising on the GPhC’s governance framework, which is subject to review by the Council, but encompasses looking at the governance framework and other internal controls from a risk perspective.

Internal Audit

7. The Committee shall ensure that there is an effective internal audit function established that utilises an appropriate risk-based approach. In addition the Committee shall:
   - consider the appointment of the internal audit service, the audit fee and any questions of resignation or dismissal and make appropriate recommendations to the Council;
   - approve the internal audit programme, consider the major findings of internal audit investigations and management’s response, and report progress on material matters to the Council.
   - ensure co-ordination between the internal and external auditors; and
   - review annually the effectiveness of internal audit.

8. There should be a dynamic relationship between audit and risk management: audit is a useful tool for checking whether risk is being appropriately managed within the organisation, and, at the same time, review of the adequacy of risk management arrangements should inform audit planning.

External Audit

9. The Committee shall:
   - consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal and make appropriate recommendations to the Council;
   - review the work and findings of the external auditor appointed by the Council, including in relation to the annual accounts, and consider the implications of, and management responses to, their work.

Accountability and Reporting

10. The Committee is accountable to the Council. The minutes of each Audit & Risk Committee meeting shall be circulated to the Council. The Committee shall report to the Council annually on its work.

11. The Committee may also submit separately to the Council its advice on issues where it considers that the Council should take action. Where the Committee considers there is evidence of ultra vires transactions or evidence of improper acts, the Chair of the Committee should raise the matter at a formal Council meeting.
Authority

12. The Committee has delegated authority from the Council as detailed in the remit above.

13. The Committee may request any employee or member to attend a meeting to assist with its discussions on any particular matter or to provide any information it may reasonably require in order to fulfil its remit. All employees and members are directed to co-operate with any reasonable request made by the Committee.

14. The Committee may obtain independent professional advice and secure the attendance of external advisers with relevant experience and expertise if it considers this necessary, within the budget approved by the Council.

Composition

15. The Committee, including its Chair, is appointed through arrangements agreed by the Council.

16. The Committee has five members. The Committee members shall include Council members, excluding the GPhC Chair and including at least one lay member and one registrant member, and may include up to two external members with appropriate audit and risk management experience.

17. The following members were appointed to the Audit & Risk Committee from 19 May 2010 to 16 March 2012:
   - Cathryn Brown
   - John Flook
   - Judy Worthington
   - Keith Wilson

A further member may be added and could be an external member to improve the skill mix or increase transparency or another Council member.

18. One of the Council members serving on the Committee shall be designated as Chair, based on relevant background and skills. In the absence of the Chair, the Committee shall elect another of its members to chair the meeting.

19. Relevant staff would normally be in attendance but no-one other than the Committee members shall be entitled to attend Audit & Risk Committee meetings. Representatives from the external or internal auditors and other Council members may attend meetings at the invitation of the Chair. The Committee may ask any or all non-members to withdraw for all or part of a meeting if it so decides, to facilitate open and frank discussion of particular matters. In such an instance, the Chair shall ensure that a proper record is made of the meeting. The GPhC Chair and Chief Executive & Registrar may
attend meetings of the Audit & Risk Committee at the invitation of the Chair of the Committee and shall attend when requested to do so, for all or part only of a Committee meeting.

Quorum

20. A quorum shall be three members of the Committee.

Frequency of Meetings

21. The Committee shall meet not less than three times a year. The external or internal auditors may request a meeting if they consider that one is necessary.
Draft Terms of Reference for the Audit & Risk Committee

1. Constitution
1.1 The Council has established the Audit & Risk Committee to support the Council by reviewing the comprehensiveness and reliability of assurances and internal controls in meeting the Council’s oversight responsibilities. The Committee is a non-executive committee and has no executive powers except as set out in these Terms of Reference.

1.2 Under the Council’s Scheme of Delegation, the Committee has delegated authority to:
   - Monitor the Council’s risk management arrangements
   - Approve the internal audit programme
   - Advise the Council on the comprehensiveness and reliability of assurances and internal controls, including internal and external audit arrangements, and on the implications of assurances provided in respect of risk and control.

1.3 The Committee may request the attendance of any employee or member, as set out in section 6 of these Terms of Reference, and may incur expenditure for the purpose of obtaining advice in terms of section 8 below.

2. Accountability and Reporting
2.1 The Committee is accountable to the Council. The minutes of each Audit & Risk Committee meeting shall be circulated to the Council. The Committee shall report to the Council annually on its work.

2.2 The Committee may also submit separately to the Council its advice on issues where it considers that the Council should take action. Where the Committee considers there is evidence of ultra vires transactions or evidence of improper acts, the Chair of the Committee should raise the matter at a formal Council meeting.

3. Membership
3.1 The Committee, including its Chair, is appointed through arrangements agreed by the Council. The Committee shall have five members, but may operate with fewer while a vacancy exists, provided the quorum is maintained. The Committee members shall include Council members, excluding the GPhC Chair and including at least one lay member and one registrant member, and may
include up to two external members with appropriate audit and risk management experience.

3.2 The Council will appoint one of the Council members serving on the Committee as Chair, based on relevant background and skills. In the absence of the Chair, the Committee shall elect another of its members to chair the meeting.

3.3 The following members were appointed to the Audit & Risk Committee from 19 May 2010 to 16 March 2012: Cathryn Brown, John Flook (Chair), Judy Worthington, Keith Wilson.

4. Remit
4.1 The duties of the Committee are as follows:

_Governance, Risk Management and Internal Control_

4.2 The Council is the governing body of the GPhC and determines the governance policy and framework for the organisation. The Committee supports the Council by reviewing and advising the Council on the operation and effectiveness of the arrangements which are in place across the whole of the Council’s activities that support the achievement of the Council’s objectives. In particular, the Committee will review the adequacy of:

- All risk and control related disclosure statements, together with any accompanying internal audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Council;
- The underlying assurance processes that indicate the degree of the achievement of corporate objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements;
- The policies for ensuring compliance with relevant regulatory, legal, governance and code of conduct requirements;
- The policies and procedures for all work related to fraud and corruption.

4.3 In carrying out this work the Committee will primarily utilise the work of internal audit, external audit and other assurance functions. It will also seek reports and assurances from directors and managers as appropriate, concentrating on the over-arching systems of governance, risk management and internal control together with indicators of their effectiveness.

4.4 In reviewing risk management arrangements, the Committee should draw attention to areas where:

- risk is being appropriately managed and controls are adequate (no action needed)
- risk is inadequately controlled (action needed to improve control)
- risk is over-controlled (resource being wasted which could be diverted to another use)
- there is a lack of evidence to support a conclusion (if this concerns areas which are material to the organisation’s functions, more audit &/or assurance work will be required).

**Internal Audit**

4.5 The Committee shall:
- Ensure that there is an effective internal audit function that complies with any applicable standards and provides appropriate independent assurance to the Council, Audit & Risk Committee, and Chief Executive & Registrar;
- Consider the appointment of the internal auditors, the cost of the service and any questions of resignation or dismissal and make appropriate recommendations to the Council;
- Ensure that the Director of Resources makes adequate resource available to the internal audit function;
- Review the internal audit strategy, operational plan and work programme proposed by the Director of Resources;
- Consider the major findings of internal audit work, and management’s response;
- Ensure co-ordination between the internal and external auditors;
- Annually review of the effectiveness of internal audit.

**External Audit**

4.6 The Committee shall:
- Consider the appointment of the external auditor, the audit fee and any questions of resignation or dismissal and make appropriate recommendations to the Council;
- Discuss and agree with the external auditor, before the audit commences, the nature and scope of the audit as set out in the external audit plan and their local evaluation of audit risks;
- Review the work and findings of the external auditor, consider the implications and management’s responses to their work;
- Review all external audit reports, including agreement of the annual audit letter before submission to the Council and any work carried outside the annual audit plan, together with the appropriateness of management responses;
- Consider the performance of the external auditor.

**Financial Reporting**

4.7 The Committee shall:
- Review the statutory annual report and financial statements before submission to the Council, focusing particularly on:
• The statement on internal control and other disclosures relevant to the Terms of Reference of the Committee;
• Changes in, and compliance with, accounting policies and practices;
• Unadjusted mis-statements in the financial statements;
• Major judgmental areas;
• Significant adjustments resulting from the audit.
• Ensure that the systems for financial reporting to the Council, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Council.

5. **Quorum**
5.1 A quorum shall be three members of the Committee.

6. **Attendance**
6.1 Only Committee members shall be entitled to attend meetings of the Committee. The Chief Executive & Registrar, Director of Resources and representatives from the internal auditors shall normally attend meetings. Representatives from the external auditors shall attend meetings as required for relevant items. Other Council members may attend meetings at the invitation of the Chair.

6.2 The Committee may request any employee or member to attend a meeting to assist with its discussions on any particular matter or to provide any information it may reasonably require in order to fulfil its remit. All employees and members are directed to co-operate with any reasonable request made by the Committee.

6.3 The Committee may ask any or all non-members to withdraw for all or part of a meeting if it so decides. In such an instance, the Chair shall ensure that a proper record is made of the meeting.

7. **Access**
7.1 The senior representatives of internal audit and external audit shall have free and confidential access to the Chair of the Committee. At least once a year, the Committee should provide an opportunity to meet privately with the external and internal auditors.

8. **Authority**
8.1 The Committee is authorised by the Council 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.

8.2 The Committee may obtain legal or other independent professional advice and secure the attendance of external advisers with relevant experience and
expertise if it considers this necessary, within the budget approved by the Council.

9. **Secretariat**
9.1 The Director of Resources shall ensure that appropriate secretariat support is provided to the Chair and Committee.

10. **Dealing with concerns**
10.1 Processes have been agreed for raising and dealing with concerns about staff or Council members that fall outside the remit of the GPhC human resources function (Council paper 02.10/C/11).

10.2 Within these processes, the GPhC Chair or the Chair of the Audit & Risk Committee may seek to resolve a concern raised by one Council member about another. If the concern is not resolved and is not referred to the Privy Council at this stage (as provided for in the GPhC Constitution Order), it should be referred to the Council or the Audit & Risk Committee. The Committee should seek to address any such concern referred to it or refer it to Privy Council if it believes there may be grounds for suspension or removal of a Council member.

11. **Frequency of Meetings**
11.1 The Committee shall meet not less than three times a year. The external or internal auditors may request a meeting if they consider that one is necessary.