

Agenda Item

Report for Company Board: Audit and Risk Assurance Committee

Written and submitted by: Geraint Willington, Company Secretary

Date of the Report: 24th November 2015

1. Purpose of the Report

To understand and approve the formation of an Audit and Risk Assurance Committee to support a crucial mechanism in ensuring adequate controls are in place to manage the risk obligations of the company board.

2. Recommendation

That the board approve the establishment of the Audit and Risk Assurance Committee and the Terms of Reference (Appendix 1)

3. Context

- The UK Corporate Governance Code, issued in September 2014 by the Financial Reporting Council (FRC), outlines the main purpose of an audit committee, saying that “the board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company’s auditors.”
- The company board should ensure that there are effective arrangements for governance, risk management and internal control for the whole company. Advice about and scrutiny of key risks is a matter for the board, not a committee. To support the board’s responsibility the board should establish an Audit and Risk Assurance Committee chaired by a suitably experienced non-executive member. Under the HM Treasury handbook on the Audit and Risk Assurance Committee the following 6 supporting provisions are seen as key:
 - The board and accounting officer should be supported by an Audit and Risk Assurance Committee
 - Advising on key risk is a role for the board. The Audit and Risk Assurance Committee should support the board in this role
 - An Audit and Risk Assurance Committee should not have any executive responsibilities or be charged with making or endorsing any decision
 - The board should ensure that there is adequate support for the Audit and Risk Assurance Committee
 - The Audit and Risk Assurance Committee should lead the assessment of the annual Governance Statement for the board
 - The terms of reference of the Audit and Risk Assurance Committee should be made available publicly.
- It is important that the role of the Audit and Risk Assurance Committee is clear to both the company board, the Joint Executive Group and understood throughout the company.

- There has been much research around the size of the Audit and Risk Assurance committee and it is important the size of the committee is proportional to the size of the company board. If the audit committee is too big in comparison there is a risk of it becoming a pseudo-board. If the audit committee is too small in relation to the board then its influence with the board may be impaired.
- A normal company of the size of the SEWEAS would be 3 but as there are 5 partner local authorities all need to be represented.
- An effective Audit and Risk Assurance Committee must have members who are both independent and objective and should possess the requisite knowledge and skills to effectively engage with and challenge the company.
- It is for the audit and risk assessment committee chairman, in consultation with the company secretary, to decide the frequency and timing of its meetings. This will be supported by the Company Secretary.
- Other members to attend on a regular through invite would be the Company Director, Finance Director, Internal Audit and External Audit. In addition there will be times when company members of staff will be requested to attend and officers who support the company through the procured local authority, service level agreement.
- The role of the audit committee is for the board to decide and to the extent that the audit committee undertakes tasks on behalf of the board, the results should be reported to, and considered by, the board. In doing so it should identify any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.
- The audit committee should review annually its terms of reference and its own effectiveness and recommend any necessary changes to the board. The board should also review the audit committee's effectiveness annually.

4. Issues

- Not-for-Profit organisation has substantially increased over the past few years and the SEWEAS being one of them. The role of the audit and risk assurance committee was primarily centered on the financial aspects of an organisation but this has now expanded to equally important non-financial aspects. These can be grouped into the following 6 areas and should form part of the Audit and Risk Assurance Committee
 - Financial reporting, internal controls and external / internal auditors
 - Risk management
 - Compliance with law and regulations
 - Technology
 - Conflict of interest
 - Reporting on impact and value for money

5. Risks

- The availability of staffing resources to serve the expectation of three large boards/committees.

- The importance and breadth of matters being discussed may impact on the demands required of the Audit and Assurance Committee.
- Duplication of work through the three boards/committees served.
- Breakdown in communication between the three boards/committees.
- It is essential that the Audit and Risk Assurance Committee understands the company's business strategy, operating environment and the associated risks, taking into account all key elements of the company

6. Conclusion

- It is essential the company implement an Audit and Risk Assurance committee in order the company board is far more coherent and focused to enable more informed decision making.
- To avoid duplication a clear defined set of targeted requirements needs to be agreed by board and communicated to both the Joint Executive Group and Audit and Assurance Committee.
- It is essential that the company remains compliant with all aspects of law and regulations. The audit committee will focus and change the way we carry out company business but at the same time the audit committee need to recognise the need to push boundaries that accelerates the outcome of our children and young pupils.
- Keeping the audit committee's agenda focused on financial reporting and related internal control risk is essential to the committee's effectiveness but meeting the workload challenge requires efficiency as well. Committee meetings should be streamlined by insisting on quality pre-meeting materials (and expecting pre-read materials to have been read), making use of consent agendas, and reaching a level of comfort with management and auditors so that financial reporting and compliance activities can be addressed efficiently. This freeing-up time for more substantive issues facing the business.

Audit and Risk Assurance Committee

Establishment

The company board to establish an Audit and Risk Assurance Committee to consist of one non-executive member from each of the five local authorities from the South East Wales Education region.

The company board to appoint a Chair of the Committee

Terms and Reference

The role and responsibilities of the audit committee are set out in these terms and reference and will be reviewed by the Company Board on an annual cycle

- 1) Financial reporting, internal controls and external / internal auditors
 - to monitor the integrity of the financial statements of the company
 - to review the company's internal financial controls
 - to monitor and review the effectiveness of the company's internal audit function
 - to make recommendations to the board in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor
 - to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements
- 2) Risk management
 - Review and assess the risk management of the company.
 - Review and monitor the processes for assessing the completeness of the risk portfolio and changes thereto and identifying emerging risks, as well as understanding how the risks are managed.
- 3) Compliance with law and regulations
 - To monitor and review HR policy and procedures and applied across the company
 - To monitor and review compliance with the current Welsh language measures act
 - To monitor and review compliance with the Health and Safety Act and the risk assessments where appropriate.
 - To monitor and review the corporate governance agreement to ensure compliance and fit for purpose. To included members, local authorities, directors and officers

4) Technology

- To review ICT Policies to ensure compliance across the company
- To review measures in place to protect against Cybersecurity
- To review and monitor the measures in place to protect data privacy and compliance with the transfer of sensitive pupil information

5) Conflict of Interest

- To review the integrity of members, directors and officers are free from conflicts that compromise judgement.

6) Reporting on Impact and Value for Money

- To review the integrity of systems developed to measure impact and value for money the SEWEAS is having on local authorities, schools and children and young people

7) Report to the board on how it has discharged its responsibilities

