HTA
Human Tissue Authority

CAF Risks & Issues

CAF Risks

Category	Description	Mitigation
Responsibility	As the CAF self-assessment is predominantly cyber security and information governance focussed, this places greater responsibilities on the Head of IT & the Records Management and Information Governance (RMIG) Lead. However, the emphasis is on protecting essential services and functions, thus affecting the whole organisation.	• Recruitment campaign in place to fill the RMIG vacancy • Interim IT Technical Cyber Security Officer appointed to Mar 25 to support IT compliance • Cross organisation involvement to meet target achievement levels
Timescales	CAF Baseline assessment deadline brought forward to 31 Dec 24 to allow NHSE to spot trends or areas where organisations need more help and support for the final assessment	• Provision of CAF alignment guidance and webinars for Category 1 organisations • Access to the Cyber Access Network • DSPT assertions mapped to CAF objectives, principles and outcomes • Awareness of CAF changes shared with SMT & all staff Weekly Exchange Call
Resources	The Director of Resources who has SIRO responsibility is leaving the organisation	• Recruitment campaign in progress • Director of Resources remaining in post until a replacement is appointed • May need to appoint an interim SIRO
Outcomes	Stringent achievement levels: - 'Not achieved', 'Partially achieved' or 'Achieved. The lowest achievement level will be used as the outcome status. Where the expectation is set at Not Achieved, the organisation must evidence planned work or work in progress to achieve the outcome.	• HTA CAF owners to assess objectives & principles collaboratively to identify gaps and plan of action to increase achievement levels • HTA to inform NHSE of any outcomes not applicable to our organisation
Funding	Expectation that some funding may be required to address cyber security gaps	• Limited funding available this FY, additional funding will need to be factored in to future business plan forecasts

CAF Issues

Category	Description	Impact	Severity
DSPT – CAF Category	As an ALB, The HTA is classified as a Category 1 organisation and therefore has been included in the first tranche of large organisations conducting CAF self-assessments. Although the HTA has undertaken DSPT self-assessments since 2018, the principles of the cyber assurance framework are not embedded in our current working practices which will require significant change.	• The deadline to complete the CAF baseline assessment by 31 Dec 24 will put additional pressure on HTA colleagues during Q3 to achieve 24-25 business plan commitments (core and change) in parallel • The HTA is subject to an Internal Audit review and finalisation of the CAF during Q1 25-26, this has not been identified as a priority in the 25-26 business plan • Key resources including the SIRO, Caldicott Guardian, Head of IT, Records Management & Information Government Lead, CAF Leads and Information Asset Owners etc. are undertaking a steep learning curve to the understand CAF changes • Culture change including greater cross HTA collaboration required to conduct gap analysis, gather evidence and justify outcome achievement levels • Active engagement through CAF networks and DHSC has not changed the classification from a Category 1 organisation	High

DSPT Key Resources

- Louise Dineley, Director of Data, Technology and Development, is the Caldicott Guardian, SRO and Board champion
- Tom Skrinar, Director of Resources, is the Senior Information Risk Owner (SIRO)
- Matt Atkinson, Head of IT, Subject Matter Expert (SME) for cyber security and technology compliance
- Vacant (appointment made subject to employment checks), Records Management and Information Governance Manager SME for Information Governance, Data Protection and DSPT

Paper Number AUD 33-24

CONFIDENTIAL

ARAC 17th October 2024

Gifts and Hospitality

AUD 34-24

HTA ARAC meeting, 17 October 2024

Agenda item	**5.3 Policies and Procedures – Counter Fraud, Strategy and Risk**
For information or decision?	Information
Decision making to date?	Standing item to each Audit and Risk Committee
Recommendation	Audit and Risk Committee is asked to note the latest updates on Counter Fraud, Strategy and Risk and wider necessary reporting
Which strategic risks are relevant?	Risk 3: Staff Risk 4: Financial
Strategic objective	Efficient and Effective
Core operations / Change activity	Core operations
Business Plan item	Audit and Risk – coordination of appropriate organisation controls to facilitate scrutiny and oversight by stakeholders
Committee oversight?	Audit and Risk Assurance Committee
Finance and resource implications	N/A
Timescales	N/A
Communication(s) (internal/external stakeholders)	N/A
Identified legislative implications	N/A

AUD 34-24

Policies and Procedures

HTA Counter Fraud (strategy and risk assessment)

Purpose of paper

1. The purpose of this paper is present to the Committee the Fraud Risk Assessment conducted in September 2024.

Decision making to date

2. None

Action required

3. The Committee are requested to consider and comment on fraud risk assessment. The committee are also requested to consider whether the listed risks assessed are adequate and if any are missing.

Background

4. The review of the fraud risk assessment is an ongoing action which stems from the Functional Standard: Counter Fraud.

5. Since the inception of Functional Standards, we continue to measure ourselves against it using the key principles within the standard. A further review by the newly created Government Counter Fraud Functional Standards Health Peer Review Group (GCFFS) on behalf of the Cabinet Office was conducted in October 2023. Based upon the evidence submitted we received 11 standards as 'Met' 1 standard 'Partially Met' and 0 standards 'Not Met'.

6. We will continue to focus on the area that was rated 'Partially Met' ensuring that we work towards a 'Fully Met' rating or best explain why we may only partially meet a standard.

7. One key area of the functional standard requires us to undertake a Fraud Risk Assessment periodically. We last shared the assessment with the committee in October 2023 and are required to share this at least annually.

8. The template at Annex A is a revised version which is considered best practice and was issued in June 2024.

9. The FRA will be reviewed by the business quarterly and brought to ARAC annually in October or earlier if there are changes within the Standard or fraud is discovered.

10. The Committee are requested to consider/comment on the Fraud Risk Assessment which is at Annex A and suggest any risks they feel are missing.

HTA Fraud Risk Assessment

Risk Number	Category	Description of Fraud Risk			Risk owner	Description and Assessment of Controls in Place	Description of Residual Risk	Assessment of Residual Risk (Scores)							Rationale &/or Evidence Used for Risk Assessment Scores
		Actor	Action	Outcome				**Likelihood** of Occurrence	**Likelihood** of Frequency	**Likelihood** - Total Score	**Impact** - Duration of Fraud	**Impact** - Materiality	**Impact** - Total Score	**Total Risk Score**	
1	Employee	**Staff**	Claiming of private expenses	Financial loss to the HTA; increase in costs Defrauding the public purse	Director of Resources / Regulation	**Preventative:** Review of expenses by finance team including spot checks prior to CDR submission; **Directive:** Expense policy shared with all staff with references to HTA zero tolerance of fraud; Anti Fraud Policy promoted	Fraud could still happen, because process of checking is manual, private expenses ca resemble business expenses	2 A possibility it will happen	1 Only likely to be a occasional occurrence	1.5	2 Fraud should be prevented or detected quickly	1 Unlikely to result in a material loss / reputational risk	1.5	2.3	I have scored occurrence 2 because we have never experienced this. I have scored the frequency 1 due to the above reasons
2	Employee	**Staff**	Multiple claims for the same expenses	Financial loss to the HTA; loss to the public purse; increase in HTA costs	Director of Resources / Regulation	**Preventative:** Review of expenses by finance team including spot checks prior to CDR submission; **Directive:** Training of staff using visual aids/videos; Anti Fraud policy **Directive:** Expense policy shared with all staff with references to HTA zero tolerance of fraud.	Fraud could still happen, because the finance system cannot detect duplicate expenditure; staff may miss the duplication if they are unused to seeing expenses of the nature incurred by HTA	2 A possibility it will happen	1 Only likely to be a occasional occurrence	1.5	3 Fraud could go undetected for a period of time	2 Material loss / reputational risk likely to be avoided	2.5	3.8	I have scored occurrence 2 because we have never experienced this. I have scored the frequency 1 due to the above reasons I have scored the duration as a 3 due to the weaknesses identified and the materiality could be significant as expenses are a key expense
3	Employee	**Staff**	Unauthorised changes to bank details for financial gain	Loss of income to the victim; reputational impact as HTA systems/controls come into question from audit	Director of Resources	**Preventative:** Highlight emails from outside of the business **Detective:** Confirmation sought from staff member whose account is to change which prevents an unauthorised change.	Fraud could still happen, because new members of staff may not follow process or may not recognise that an instruction may be fraudulent	1 Unlikely	1 Only likely to be a occasional occurrence	1	1 Fraud should be prevented or detected immediately	1 Unlikely to result in a material loss / reputational risk	1	1.0	We have experienced this already and changes were put in place such as highlighting external emails and confirming the change with the account holder
4	Employee	**New Staff**	False qualification submitted (where appropriate) during recruitment process	Person employed in a capacity they are not suited to which could impact on delivery	Director of Resources	**Preventative:** For certain roles, certificates may be asked for as are references **Monitoring:** Period of probation is 6 months which should highlight staff members capabilities	Fraud could still happen, because false documentation could be submitted if staff are not able to identify these.	1 Unlikely	1 Only likely to be a occasional occurrence	1	2 Fraud should be prevented or detected quickly	1 Unlikely to result in a material loss / reputational risk	1.5	1.5	I have scored the Likelihood as low as this risk has not materialised and our probation process works
5	Employee	**Finance Staff**	Payments made to an account not connected to a bonafide supplier or staff member	Financial loss to the HTA, loss to the public purse; audit may provide a 'limited' opinion	Director of Resources	**Preventative/Detective:** Account details are checked against invoices; invoices checked to previous periods to ensure the details are the same	Fraud could still happen, because staff may collude in the process	1 Unlikely	1 Only likely to be a occasional occurrence	1	2 Fraud should be prevented or detected quickly	1 Unlikely to result in a material loss / reputational risk	1.5	1.5	I have scored the Likelihood as low as there are a sufficient number of staff checking outside of finance. I have scored the Impact score as 2 as likelihood is low and therefore impact/materiality will be low
6	Employee	**Finance/HR Staff**	Create ghost employee with account details that they can access during COVID	Financial loss to the HTA; increased paybill	Director of Resources	Risk was heightened during Covid where staff on a remote and cannot always be verified. **Preventative**: Recruitment process must be conducted. Senior sign-off on recruitment of new staff; business case approval at SMT to recruit **Detective:** Periodic review of payroll listing by senior member of staff as a check	Fraud could still happen if there is collusion between HR and the Finance team.	2 A possibility it will happen	1 Only likely to be a occasional occurrence	1.5	1 Fraud should be prevented or detected immediately	2 Material loss / reputational risk likely to be avoided	1.5	2.3	I have scored this overall because I do not believe that additional checks outside of finance team as to who is on our payroll
7	Employee	**Regulation Managers**	Submit inflated overtime claims	Financial loss; increased costs impacting on available funds for project work	Director of Regulation	**Preventative:** Sign-off of claims can only be done by a Head of Regulation; limitation on the number of hours that can be claimed **Deterrent:** Expense policy reference to fraud	Fraud may still occur if Line Managers signing off expenses are not challenging them before submission. Whilst there are limits on the number of hours claimed, claims could be made for extra hours not travelled.	2 A possibility it will happen	1 Only likely to be a occasional occurrence	1.5	2 Fraud should be prevented or detected quickly	1 Unlikely to result in a material loss / reputational risk	1.5	2.3	I have scored the Likelihood and Impact low as there is no evidence to suggest it is happening
8	Employee	**Staff (homeworkers)**	Are not working their contracted hours	Business loss and possible impact on delivery of services, impact on other staff members	Directors	**Directive:** Guidance or etiquette is available to staff detailing use of teams **Preventative:** Daily check-in with team members; Line Managers oversight, objective setting and monitoring	Fraud may still occur if the listed controls are not working where Line Managers do not have oversight of their teams	2 A possibility it will happen	1 Only likely to be a occasional occurrence	1.5	2 Fraud should be prevented or detected quickly	1 Unlikely to result in a material loss / reputational risk	1.5	2.3	Scored low as no evidence exists
9	Employee	**Regulation Staff**	Issues favourable inspections report in return for financial inducements or gifts	An establishment may conduct activities whilst not compliant which could impact on patient services	Director of Regulation	**Directive:** Declaration of Interests, Gifts and Hospitality policy is shared with staff and reminders to declare. **Preventative:** Bi-annual request for declarations. Q&A on inspection reports and comparative data from previous reports would highlight a significant change in the level of compliance that may have arisen from a biased site visit / RM report	Fraud may still occur if RM's are not periodically rotated which would prevent a relationship being built with a particular establishment. Revised inspection regime has single RM on inspections. If a thorough review of compliance information gathered during inspection is not cross-checked against findings in the report, fraud cost still happen	2 A possibility it will happen	1 Only likely to be a occasional occurrence	1.5	2 Fraud should be prevented or detected quickly	1 Unlikely to result in a material loss / reputational risk	1.5	2.3	I have scored this at 2.3 as the controls are not robust enough and thorough reviews/audits are not being conducted.
10	Information	**Staff**	Unauthorised access to application through ransomware/malware	Loss of data impacting on service delivery; HTA's networks compromised giving access to any sensitive data	Director of Data, Technology & Development	**Detective:** Specific software deployed to detect malware; banners on emails highlighting external to the organisation **Directive/Preventative:** Policies in place which are shared with staff**;** software cannot be downloaded or installed without admin rights	Fraudulent activity may still occur if there is a delay in software patching or new variants are not know about therefore suitable software is not deployed	1 Unlikely	2 A few instances likely to occur	1.5	1 Fraud should be prevented or detected immediately	1 Unlikely to result in a material loss / reputational risk	1	1.5	I have scored the likelihood as 1.5 as there a strong controls in place and we have not had any instances. I have scored the impact as 1 due to the above
11	Procurement	**Supplier**	Impersonation of a legitimate supplier to divert payments by requesting bank details to be changed	Financial loss to the HTA and the legitimate supplier	Director of Resources	**Preventative:** Telephone call to the supplier to check request is legitimate **Detective:** Approvals process involves a check that the bank details from the finance system match those on the invoice.	There is a very small chance that fraud could still occur if processes are not followed by new and existing staff	2 A possibility it will happen	1 Only likely to be a occasional occurrence	1.5	1 Fraud should be prevented or detected immediately	1 Unlikely to result in a material loss / reputational risk	1	1.5	This has been scored very low as the HTA has not experienced this type of fraud, however it has been subject to mandate fraud involving staff bank details hence the likelihood of occurrence rated a 1.5.
12	Financial	**Management**	Management my override finance policies during a period of overspends	Accounts show a much favourable position than realisty	Director of Resources	**Preventative:** Authorisation of transactions requires two people; division of duty around journal/transaction processing. **Detective:** external audit - substantive testing identified abnormal transactions	The risidual risk is very low due to the controls currnetly in place which have been tested frequently	1 Unlikely	1 Only likely to be a occasional occurrence	1	2 Fraud should be prevented or detected quickly	1 Unlikely to result in a material loss / reputational risk	1.5	1.5	The scoring reflects the controls in place and previous audits with unqualified opinion
13	Information	**Cyber Criminal**	May send malware or phishing emails to the HTA staff and exploit them	May gain access to parts of the HTA network or take control of computers causing loss of information and distress. Financial loss may also occur	Director of Data, Technology & Development	**Preventative:** Filtering software of incoming and outgoing emails for malware. **Directive:** Cyber Security and Information Management policies in place. Staff undertake mandatory training	Fraud could still happen if new members of staff delay their training however this is still a very low riks	1 Unlikely	1 Only likely to be a occasional occurrence	1	2 Fraud should be prevented or detected quickly	1 Unlikely to result in a material loss / reputational risk	1.5	1.5	I have score the likelihood total score as 1 as the preventative control is a strong control I have scored the total impact as 1.5 again as the two controls in place a strong

[AUD 35-24]

HM Treasury

Audit and Risk Assurance Committee Handbook

July 2024

HM Treasury

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ISBN: 978-1-917151-23-8 PU: 3435

Contents

Foreword

The “Corporate governance in central government departments: Code of Good Practice” guidance tasks organisational boards with setting the organisation’s risk appetite and ensuring that the framework of governance, risk management and control is in place. The Audit and Risk Assurance Committee (ARAC) plays a crucial role in supporting the board in meeting these obligations.

The ARAC role is a demanding one and requires strong and independent members with an appropriate range of skills and experience. It will benefit from a collaborative relationship with the organisation to ensure that the committee gets the support and information that it needs.

The ARAC should act as the conscience of the organisation, providing insight and constructive challenge where required, such as on risks arising from fiscal and resource constraints, new service delivery models, information flows on risk and control, and the agility of the organisation to respond to emerging risks.

The 2023 Orange Book – Management of Risk and Principles introduced a risk control framework (RCF) for use by organisations to show that appropriate risk management processes exist. The RCF makes it easier for accounting officers to navigate and gain comfort on the existing internal control requirements contained in the functional standards, codes of conduct and guidance they are currently expected to adhere to. The 2023 Orange Book also introduces the requirement for each government organisation to either disclose compliance with the Orange Book or to explain their reasons for departure clearly and carefully in the Governance Statement accompanying their Annual Report and Accounts.

Whilst much of the content of this document focuses on central government departments, it is equally applicable to executive agencies, executive non-departmental public bodies and arm’s length bodies.

There are no significant changes to this updated handbook compared to the version published in March 2016. It has been refreshed and expanded in places to improve clarity. The annexes on whistleblowing and cyber security have been removed as this handbook covers the role and responsibilities of an ARAC and is not intended to provide guidance on areas that an ARAC may need to review. In this vein, Annex F “key questions for an ARAC to ask” provides brief prompts of what ARACs should consider on a range of topics, including cyber security and whistleblowing and is not meant to be an exhaustive (or restrictive) list of questions relating to a particular topic. Finally, a checklist which an ARAC could use to review its effectiveness has been added at Annex H

Chapter 1
Introduction

1.1 The government's Corporate governance in central government departments: code of good practice guidance (hereafter referred to as "the Code") **Principle 5.1** provides that:

The board should ensure that there are effective arrangements for governance, risk management and internal control for the whole departmental family. Advice about and scrutiny of key risks is a matter for the board, not a committee. The board should be supported by:

- an Audit and Risk Assurance Committee (ARAC) chaired by a suitably experienced non-executive board member (NEBM);
- an internal audit service operating to the professional standards mandated for internal audit in the public sector; and
- sponsor teams of the department's key arm's length bodies (ALBs).

1.2 On ARACs, this principle is supported by six provisions in the Code.

- The board and accounting officer should be supported by an ARAC comprising of at least three members.
- Advising on key risks is a role for the board. The ARAC should support the board in this role.
- An ARAC should not have any executive responsibilities or be charged with making or endorsing any decisions.
- The board should ensure that there is adequate support for the ARAC; including a secretariat function. – **See Annex B Committee Support: Good Practice.**
- The ARAC should lead the assessment of the annual Governance Statement for the board.
- The terms of reference of the ARAC should be made available publicly.

1.3 The Code states "In addition to central government departments, the principles in the Code generally hold across other parts of central government, including departments' ALBs, which are encouraged to adopt the principles in the code wherever relevant and practical. Arrangements for ALBs may depend on statute. Generally, ministers do not chair boards of ALBs, or non-ministerial departments where statute sets out the applicable governance".

This means that ARACs should be established in all departments, executive agencies, executive non-departmental public bodies and ALBs.

1.4 Guidance to the Code recognises that the ARAC might be constituted as two separate committees:

- an audit committee, with a focus on assurance arrangements over: governance, financial reporting, annual report and accounts, including the governance statement and

- a risk committee, with a focus on ensuring there is an adequate and effective risk management and assurance framework in place.

In central government, all aspects would usually be covered by one committee, unless the anticipated workload or complexity of the business is such that one committee would not be able to provide sufficient attention. In such a case, some non-executive responsibilities in relation to risk might be more appropriately managed by a risk committee. Such a committee would typically focus on ensuring that the organisation is working within its risk appetite/tolerance and that the risk strategy is appropriately attuned to anticipated external conditions. It should be noted that the remit for any such committee should be clear and distinct from executive risk management committees that may already exist. The rest of this Handbook assumes that a single committee will be established (see **Annex D** for an example Terms of Reference).

1.5 The Code requires that the terms of reference of the ARAC including its role and the authority delegated to it by the board, should be made available publicly. The department should report annually on the work of the committee in discharging those responsibilities.

1.6 Any significant non-compliance with the five good practice principles of this Handbook (summarised in Chapter 2), taking account of the Code should be explained and reported to the board and if necessary be included in the Governance Statement).

Chapter 2

Good practice principles for Audit and Risk Assurance Committees

This Handbook sets out five good practice principles for ARACs in central government. These are summarised below. Each principle is then further explained in the following chapters. Each principle is of equal importance.

Principle 1: Membership, independence, objectivity and understanding

The ARAC should be independent and objective; in addition, each member should be a non-executive, who should have a good understanding of the objectives and priorities of the organisation and of their role as an ARAC member.

Principle 2: Skills

The ARAC should collectively own an appropriate skill mix to allow it to carry out its overall function and duties.

Principle 3: The role of the ARAC

The ARAC should support the board and accounting officer by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report.

Principle 4: Scope of work

The scope of the ARAC work should be defined in its terms of reference and encompass all the assurance needs of the board and accounting officer. Within this, the ARAC should have particular engagement with the work of internal audit, risk management, external audit, counter fraud and financial management and reporting issues.

Principle 5: Communication and reporting

The ARAC should ensure that it has effective communication with all key stakeholders, for example, the board, the head of internal audit, the external auditor, the risk manager and other relevant assurance providers such as the counter fraud manager.

Chapter 3

Membership, independence, objectivity and understanding

Principle 1: The ARAC should be independent and objective; in addition, each member should be a non-executive, who should have a good understanding of the objectives and priorities of the organisation and of their role as an ARAC member.

Independence

3.1 An effective ARAC must have members who are independent and objective. The board and accounting officer should be supported by an ARAC with no executive responsibilities, comprising at least three non-executive members.

3.2 The Chair of the committee should be a non-executive board member (NEBM[1]) with relevant experience. There should be at least one other NEBM on the committee (but to retain independence, the chair of the board should not be a member of ARAC). The committee can seek further independent, non-executive membership from sources other than the board, in order to ensure an appropriate level of skills and experience. NEBM recruitment is regulated by The Commissioner for Public Appointments and should be undertaken in line with Cabinet Office guidance (Governance Code on Public Appointments) on the recruitment, appointment and development of non-executive members of Civil Service boards. To operate in an independent and competent manner, the committee should possess the requisite knowledge and skills to effectively engage with and challenge the organisation (see Chapter 4).

Relationship with the Executive

3.3 Executive members of the organisation should not be appointed to the ARAC. The role of the Executive is to attend, to provide information, and to participate in discussions, either for the whole duration of a meeting or for particular items.

[1] NEBMs are required for departmental boards. Their equivalents in ALBs may be referred to as Non-Executive Directors

3.4 The accounting officer and the finance director should routinely attend ARAC meetings. It is also normal for the head of internal audit, risk manager and a representative of the external auditor to attend each meeting. However, the terms of reference should also provide for the ARAC to meet privately without any non-members present for all, or part, of a meeting if they so wish.

3.5 It is also good practice:

- for the Chair of the ARAC to meet separately with the accounting officer, the finance director, the head of internal audit and the external auditor's senior representative outside of the formal committee structure (see paragraph 6.7).
- for other ARAC members (if leading on areas of work for the committee) to keep in touch with relevant staff outside of the formal meetings.

See Annex A for good practice points for the role of the Chair.

Other participants

3.6 For some ALBs there may be significant overlap or homogeneity of function, for example, covering different remits/regions, or an ALB may represent a large or important element of a department's remit or expenditure. In such cases, it may prove more efficient and effective (as well as helping to promote group working across departmental families) to establish shared ARAC arrangements or to have membership crossover in the separate committees across the department, avoiding conflicts of interest. For example, ARAC members of ALBs may be members of the Departmental ARAC.

3.7 Sponsoring departments and their ALBs should ensure that the inter-relationship, including any cross-attendance of ARACs is agreed and appropriately documented in the Framework Document (using the inter-relationship of accountabilities at the accounting officer level as a guiding factor). Attention should be given to the processes by which information and assurance is communicated between ARACs, in particular regarding assurance necessary to support the departmental Governance Statement.

3.8 Where there is no significant overlap of duties between the ALB and Department, consideration should be given to having a senior member of departmental staff attending the ALB ARAC to ensure the sponsor department is aware of key governance processes and issues within ALBs.

Conflicts of interest

3.9 Normally the process for recording declarations of conflicts of interests in the ARAC should mirror the processes used at board level. Each member of the committee should take personal responsibility to declare pro-actively any potential conflict of interest arising out of business undertaken by the organisation(s), arising on the committee's agenda or from changes in the member's personal circumstances. The Chair of the committee should then determine an appropriate course of action with the member. For example, the member might simply be asked to leave while a particular item of business is taken; or in more extreme cases the member could be asked to stand down from the committee. If it is the Chair who has a conflict of interest, the board should ask another member of the committee to lead in determining the appropriate course of action. A key factor in determining the course of action will be the likely extent and duration of the conflict of interest: a conflict likely to endure for a long time is more likely to suggest that the member should stand down.

Terms of appointment

3.10 All members of the ARAC should have a clear understanding of:

- what is expected of them in their role, including time commitments;
- how their individual performance will be appraised, including a clear understanding of what would be regarded as unsatisfactory performance and the criteria which would indicate the termination of ARAC membership;
- the duration of their appointment and how often it may be renewed. Cabinet Office guidance Governance Code on Public Appointments for appointment of an NEBM is that the first appointment is for a fixed three years which can be renewed for up to three years, hence a maximum of six years; and
- training required and how this will be provided.

3.11 The terms of appointment of an ARAC member should be clearly set out at the time of appointment. An example letter of Appointment is set out at **Annex C**. The letter should also specify what other activities (outside the NEBM role) the individual may or may not undertake in relation to the organisation. The impact on independence of remuneration from other activities should be given careful consideration. More detailed guidance on the making of appointments can be found in Governance Code on Public Appointments.

Chapter 4
Skills

Principle 2: The ARAC should collectively own an appropriate skill mix to allow it to carry out its overall function and duties.

Range of skills

4.1 The ARAC is charged with ensuring that the board and accounting officer of the organisation gain the assurance they need on governance, risk management, the control environment and on the integrity of the financial statements, as well as other elements of the annual report and accounts. It therefore needs a good range of skills and experience in relation to governance, risk, control and financial management. Because of the importance of financial management and reporting to every organisation, at least one member of the committee should have recent and relevant financial experience sufficient to allow them to competently analyse the financial statements and understand good financial management disciplines or any complex financial transactions of the organisation.

4.2 The ARAC should identify and agree with the board, the other skills required for committee effectiveness. These wider skills may be in relation to the core business of the organisation, or related to key developments, for example relating to change management or IT where this is of strategic significance to the organisation. The required skill set should be periodically reviewed (every two to three years).

4.3 As the ARAC matures, the skills and knowledge of the members should also develop, enabling them to focus on the key issues facing the organisation. ARAC networking or conferences within and across departmental boundaries can be a good way to keep up with current developments which may affect the organisation.

4.4 Although ARAC members are recruited for their individual skills, it is vital that they are able to work collaboratively.

Additional skills

4.5 The ARAC should be empowered to both:

- co-opt members (complementing the three standing members) for a period of time (not exceeding a year and with the approval of the board) to provide specialist skills, knowledge and experience, which the committee needs at a particular time; and

- procure specialist advice at the expense of the organisation on an ad-hoc basis to support them in relation to particular pieces of committee business.

Training and development

4.6 All ARAC members, whatever their status or background, will have training and development needs, especially for recent developments or emerging risk areas (e.g. artificial intelligence). Those who have recently joined the ARAC will need induction training, to help them understand their role and/or the organisation. Those joining a public sector ARAC for the first time with no experience of government will need training to help them understand the public sector accountability framework, especially those elements relating to governance and accountability. The Government Internal Audit Agency run regular training sessions for ARAC members.

4.7 The committee Chair should, in addition, ensure that all committee members have an appropriate programme of engagement with the organisation and its activities to help them understand the organisation, its objectives, business needs, priorities and risk profile.

4.8 **Annex G** provides a suggested Competency Framework for ARAC members.

Chapter 5

The role and scope of the Committee

Principle 3: The ARAC should support the board and accounting officer by reviewing the comprehensiveness and reliability of assurances on governance, risk management, the control environment and the integrity of financial statements and the annual report.

Principle 4: The scope of the ARAC work should be defined in its terms of reference and encompass all the assurance needs of the board and accounting officer. Within this, the ARAC should have particular engagement with the work of internal audit, risk management, external audit, counter fraud and financial management and reporting issues.

Supporting the accounting officer and the board

5.1 Accounting officers and boards have many issues competing for their attention. One of the challenges they face is knowing if they are giving their attention to the right issues. Key to addressing this is assurance, which draws attention to the aspects of governance, risk management and control that are functioning effectively and, just as importantly, the aspects which need to be given attention to improve them.

5.2 The accounting officer and board are responsible for developing an effective governance, risk management and control framework. A risk-based approach to assurance helps the accounting officer and board to judge if its agenda is focussing on the issues that are most significant in relation to achieving the organisation's objectives and strategy and if best use is being made of resources.

5.3 The ARAC supports the accounting officer and board to formulate their assurance needs, by reviewing risks, systems and processes and considering how well the assurance provided actually meets these needs. ARACs should gauge the extent to which assurance on the management of risk is comprehensive and reliable. Assurance cannot be absolute, so the committee will need to know that the organisation is making effective use of the finite assurance resources at its disposal, targeting areas of greatest risk. This can include carrying out a "deep dive" exercise of risks that the committee determine are key threats to the organisation.

5.4 Formulation of the specific assurance need is key to determining the resource that needs to be dedicated to delivery of assurance in the organisation. Key elements include:

- the strategic outcomes and objectives which the organisation is charged to deliver, and the associated risks and control mechanisms;
- the external environment in which the organisation operates and the risks to the delivery of its strategic outcomes and objectives;
- the sources of assurance available; and
- the level of confidence required in assurances, including the extent to which the range of assurance providers can be relied on by Internal Audit in delivering its overall opinion on governance, risk management and control in accordance with the professional standards mandated for internal audit in the public sector.

5.5 A well-designed assurance framework should identify all the key sources of assurance in the organisation and seek to coordinate them to best effect. This can help to ensure that gaps are reduced or eliminated, and unnecessary duplication avoided. A conceptual model that is often used to help to categorise the various sources of assurance is the 'three lines model'. By defining the sources of assurance in three broad categories, it helps to understand how the type and nature of the mechanisms can contribute to the bigger assurance picture:

a) First line: management assurance from "front line" or business operational areas;

b) Second line: oversight of management activity, separate from those responsible for delivery, but not independent of the organisation's management chain (such as a quality assurance function); and

c) Third line: independent and more objective assurance, including the role of internal audit and from external bodies (e.g., accreditation and Gateway reviews). Further detail of the work of internal audit is provided later in this chapter.

5.6 An understanding of the three lines model can help the ARAC to play a key role in helping the accounting officer and board establish an optimal mix of assurance. The 2023 Orange book, part 2 defines assurance and provides clarity on controls assurance aspects of existing guidance by introducing a Risk Control Framework (RCF), including a supporting bank of questions covering all aspects of the RCF, standards, codes and guidance applicable to accounting officers.

5.7 The overall provision of assurances to the accounting officer and board should be reviewed by the ARAC, which should constructively challenge:

- if the nature and scope of the assurance providers' activity meets the accounting officer and board's assurance needs;
- the credibility and independence of each provider; and

- where appropriate, the actual assurances to test that they are founded on sufficient reliable evidence and that conclusions are reasonable in the context of the evidence.

5.8 The ARAC should proactively commission assurance work from appropriate sources if it identifies any significant governance, risk management and control issues, which are not being subjected to sufficient review. ARACs should also seek assurance that weaknesses identified by reviews that have been conducted are remedied by management.

5.9 A list of questions for ARACs to consider asking on key areas of their responsibility is provided at **Annex F**.

5.10 The ARAC should draw the board's attention to areas where:

- risk is being appropriately managed (no action needed);
- risk is inadequately controlled in relation to the organisation's risk appetite (action needed to improve control);
- risk is over-controlled in relation to the organisation's risk appetite (resource being wasted which could be diverted to other use);
- there is lack of evidence to support a conclusion. If this concerns areas material to the organisation's operations, more assurance work may be needed, subject to an assessment of costs and benefits.

5.11 In accordance with the Code, assurance should be obtained on risks across the departmental family/group. The structure of the departmental family/group will therefore need to ensure that there is effective communication on risks and control to ensure appropriate visibility of, and timely action on, such matters, as well as to feed into the annual Governance Statement.

5.12 Similarly, assurance on risk and control should also encompass services outsourced to external providers, including shared service arrangements, so that all key elements of the organisation are considered.

5.13 It is also good practice to have reasonable oversight of risks that cross organisational boundaries, for example, in major projects. This could include a Chairs of ARAC Forum, which meets, for example, twice a year. The Group would focus on assurances on cross organisational governance, risk and control arrangements. The National Audit Office publication Cross-Government working: good practice provides useful guidance in this area.

Internal and external audit

5.14 For any government organisation there will always be two significant sources of independent and objective assurance: internal audit and external audit.

5.15 The work of internal audit is carried out primarily for the benefit of the accounting officer and board of the organisation and is likely to be the single most significant resource used by the ARAC in discharging its responsibilities. This is because the head of internal audit, in accordance with the professional standards mandated for internal audit in the public sector, has a responsibility to provide an annual opinion on the overall adequacy and effectiveness of the organisation’s governance, risk management and control processes. There is consequently a major synergy between the purpose of the head of internal audit and the role of the ARAC.

5.16 The role of the ARAC in relation to internal audit should include advising the accounting officer and board on:

- the internal audit mandate, charter, strategy and audit plans, forming a view on how well they reflect the organisation’s strategic objectives, risk exposure and support the head of internal audit’s responsibility to provide an annual opinion;
- the adequacy of the financial, human and technological resources available to internal audit;
- the results of internal audit work, including reports on the effectiveness of systems for governance, risk management and control, and management responses to issues raised;
- results of any cross government internal audit work;
- the annual internal audit opinion and annual report;
- the performance of internal audit, including conformance with the applicable standards, expected performance measures, and the results of both internal and external quality assurance assessments, which should be reported to the ARAC by the head of internal audit; and
- the implementation status of internal audit recommendations.

5.17 In central government, the National Audit Office under the Comptroller and Auditor General is responsible for external audit. Although the work of external audit is normally primarily conducted for the benefit of Parliament, it is still of significant benefit to the organisation. The ARAC should consider:

- the results of external audit work and resolution of identified weaknesses;
- the external auditor’s planned audit approach and performance to date and if this is adequate;
- the way in which the external auditor is co-operating with internal audit to maximise overall audit efficiency, capture opportunities to derive a greater level of assurance and minimise duplication of work;
- the potential implications to the organisation of the wider work carried out by the external auditor, for example, value for money reports and good practice findings;
- the letter of representation to the external auditor at the end of the year, to ensure ARAC is aware of the key areas within the letter, or to discuss those issues which have not been previously reported to ARAC or are unusual; and
- whether the level of fees is appropriate for work to be undertaken.

5.18 Separate meetings between ARAC members and internal and external auditors should be held (at least annually) to help the non-executives establish open working relationships and provide auditors the opportunity to discuss any issues of concern.

Governance and the control environment

5.19 It is essential that the ARAC understands how governance and internal control arrangements support the achievement of the department's strategies and objectives, especially:

- the board operating framework, including the department's vision and purpose;
- mechanisms to ensure effective organisational accountability, performance and risk management;
- role definitions, committee and other structures to support effective discharge of responsibilities, decision making and reporting;
- the development, operation and monitoring of the system of internal controls and whether these will provide timely warnings of any failings;
- promotion of appropriate ethics and values within the organisation;
- communication of management information, including on risk and control among the board and to appropriate areas of the organisation; and
- relations with ALBs/Sponsor Department.

Risk management

5.20 It is also essential that the ARAC:

- understands the organisation's business strategy, operating environment and the associated risks, taking into account all key elements of the organisation as part of a departmental family;
- understands the role and activities of the board (or equivalent senior governance body) in relation to managing risk and impact on the work of ARAC;
- discusses with the board its policies, attitude to and appetite for, risk to ensure these are appropriately defined and communicated so management operates within these parameters;
- understands the framework for risk assessment, management and assurance and the assignment of responsibilities;
- critically challenges and reviews the risk management and assurance framework, without second guessing management, to provide assurance that the arrangements are actively working in the organisations;
- critically challenges and reviews the adequacy and effectiveness of control processes (including risk registers) in responding to risks within the

organisation's governance, operations, compliance and information systems, including undertaking deep dives into significant risks; and

- considers whether the risk management system will be effective in identifying new and emerging risks.

The Orange book: Management of risk – principles and concepts should be used to manage risks.

Counter fraud

5.21 The ARAC should consider counter fraud arrangements on a regular basis to understand the main fraud and error risks and management actions to mitigate these. They should satisfy themselves that:

- there is an appropriate anti-fraud policy in place which is regularly reviewed and updated;
- suitable processes are in place to ensure fraud is guarded against (i.e., controls are designed to prevent and detect fraud and error);
- losses are suitably recorded and responded to; and
- quarterly returns on counter fraud are made to the Cabinet Office.

5.22 The ARAC should get reports on major incidents and near misses as well as details of special investigations, including any whistleblowing cases.

Financial management and reporting

5.23 The ARAC should consider significant accounting policies (guidance can be found in HM Treasury's Financial Reporting Manual), any changes to them and any significant estimates and judgements, if possible before the start of the financial year. It should also review the clarity and completeness of disclosures in the year-end financial statements and consider whether the disclosures made are set properly in context.

5.24 The ARAC will not itself be able to review the accounts in detail to advise the accounting officer whether they are true and fair. Ideally, the committee should expect a comprehensive overview of the financial statements by the finance director, including comparisons with the prior year and current year budget, and an explanation for any issues arising. In reaching a view on the accounts, the committee should consider:

- key accounting policies and disclosures, especially if there have been any changes to accounting standards;
- assurances about the financial systems which provide the figures for the accounts;
- the quality of the control arrangements over the preparation of the accounts;
- key judgements made in preparing the accounts; and whether specialist advice was obtained when required;

- any disputes arising between those preparing the accounts and the auditors; and
- advice and findings from external audit (especially the Audit Completion Report – ISA 260 Report).

5.25 The ARAC should also consider the contents of the Annual Report to ensure this is reasonable and in accordance with ARAC's understanding of the organisation.

Terms of reference

5.26 The ARAC's terms of reference should be agreed by the board and made publicly available (including on the organisation's website). It is important that a balance is struck during meetings between corporate governance, risk management, control and financial reporting items. The terms of reference should be reviewed regularly alongside the performance of the ARAC. An example Terms of Reference for an ARAC is suggested at **Annex D**.

5.27 The responsibilities assigned to the ARAC should not provide any conflict with the guidance in this handbook, in particular by compromising independence. An ARAC should not have any executive responsibilities or be charged with making or endorsing any decisions, although it may draw attention to strengths and weaknesses in control and make suggestions for how such weaknesses might be mitigated. The overarching purpose of the ARAC is to advise the board; it is then the board that makes the relevant decisions.

5.28 The ARAC should have appropriate authority to require any member of the organisation to report on the management of risk or the control environment within their areas of responsibility, in general terms or in respect of specific issues, either by:

- attending an ARAC meeting; or
- providing written report(s) to the ARAC for the purpose of providing information to assist the committee in fulfilling its role.

5.29 The board needs adequate and timely feedback on the work of the ARAC in order to consider its contributions formally. A schedule of the committee's agreed delegations from the board, and the mechanisms for feedback and assurance, should be documented in the board operating framework.

5.30 To fulfil its role, the ARAC should meet at least four times a year, scheduled to align with the audit and assurance cycle. An example "core programme" of work for an ARAC meeting four times a year is provided at **Annex E**.

5.31 The ARAC will require access to funding to cover the costs incurred in fulfilling its role. The funding should be sufficient to:

- meet the remuneration and working expenses of its members;
- meet the relevant training needs of its members;

- provide specialist (external) advice or opinions when required; and
- (as agreed with the organisation) provide external review of the effectiveness of the ARAC.

Chapter 6

Communication and reporting

Principle 5: The ARAC should ensure that it has effective communication with all key stakeholders, for example, the board, the head of internal audit, the external auditor, the risk manager and other relevant assurance providers, such as the counter fraud manager.

Communication between the committee and the board

6.1 The work of the ARAC needs to be effectively communicated, including across the departmental group. After each meeting of the committee a verbal or written report should be provided to the board and accounting officer to:

- summarise the business taken by the committee, explaining, if necessary, why that business was regarded as important; and
- offer the views of, and advice from, the committee on issues which they consider the board or accounting officer should be taking action.

6.2 If the minutes of the committee meeting are used as the report, care should be taken in their presentation to highlight the advice being provided. These reports should be copied to the head of internal audit and the external auditor.

6.3 It is important for the ARAC to have good relationships and communication with those it seeks briefings from, and those it provides assurance to. This ensures that the committee is effectively engaged with the organisation and able to fulfil its function. This should include where risks cross organisational boundaries, for example, in major projects (see 5.13).

Annual reports

6.4 The ARAC should provide an Annual Report, timed to support the preparation of the Governance Statement. This internal report needs to be open and honest in presenting the committee's views if it is to be of real benefit to the board and accounting officer. This report is likely to be used by the board in preparing its own report for publication in fulfilment of the reporting requirements of the Code.

6.5 The Annual Report should summarise the ARAC's work for the year past, and present the committee's opinion about:

- the effectiveness of governance, risk management and control; specifically including the organisation's proposed disclosure on compliance with the Orange Book updated in May 2023 and which now includes the Risk Control Framework;
- the comprehensiveness of assurances in meeting the board and accounting officer's needs;
- the reliability and integrity of these assurances;
- if the assurance available is sufficient to support the board and accounting officer in their decision taking and their accountability obligations;
- the implications of these assurances for the overall management of risk;
- any issues the ARAC considers pertinent to the Governance Statement and any long-term issues the committee decides should draw the board and/or accounting officer attention;
- financial reporting for the year;
- the quality of both internal and external audit and their approach to their responsibilities; and
- the committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.

6.6 The ARAC's opinion should take into account any other relevant assurance reports. For example, where there are risks across a group, related committees may need to produce Annual Reports along the lines of 6.5 above, timed to support the production of the overarching group report.

Bilateral communications

6.7 There should be mutual rights of access between each of the Chair of the ARAC, the accounting officer, risk manager (if a separate function), head of internal audit and the external auditor. Periodic discussions (at least annually) outside of the formal meeting help to ensure that expectations are managed and that there is mutual understanding of current risks and issues.

Annex A

The role of the Chair: good practice

A.1 The role of the Chair of the ARAC goes beyond chairing meetings. Indeed, it is key to achieving committee effectiveness. Activities in addition to committee meetings should include the following.

- Agreeing a draft forward workplan for the committee, at the start of each financial year, to ensure all matters which the committee is responsible for, will be properly considered throughout the year and at the right time.
- Before each meeting, the Chair and the Committee Secretary should meet to discuss and agree the business for the meeting, including time allowed for the meeting. The Chair should take ownership of, and have final say in, the decisions about what business will be pursued at any particular meeting.
- Meeting time should be optimised by making sure that all agenda papers are issued in good time and then having each paper summarised outlining the key points, cross referred to the organisational business and risk agenda and stating what action the committee is required to take.
- The Chair should ensure that after each meeting appropriate reports (in writing or verbal) are prepared from the ARAC to the board. A written annual report to the board should also be provided.
- The Chair should have bilateral meetings (at least annually) with the accounting officer, the head of internal audit, risk manager and the external auditor, and in Non-Departmental Public Bodies (NDPBs), with the Chair of the Departmental Board. In addition, the Chair should meet any people newly appointed to these positions as soon as practicable after their appointment.
- The Chair should also ensure that all committee members have an appropriate programme of engagement with the organisation and its activities to help them understand the organisation, its objectives, business needs and priorities.
- In a Departmental family or Group environment, the Chair of the Department or Group ARAC should establish a mechanism enabling key stakeholders to consider the Department’s or group’s overall risk and assurance needs.
- Encouraging good, open relationships between the ARAC, accounting officer, finance director, risk manager and internal and external auditors.
- The Chair should support and add weight to audit work by:

a) promoting audit issues internally with relevant board members and other directors to demonstrate the value of audit;

b) holding managers within the organisation to account for the implementation of all audit recommendations; and

c) calling appropriate business heads to meetings, for example, to explain how they are delivering their agreed actions on risks for which they are responsible.

- Arranging separate meetings for the Chair, non-executives, independent members and internal and external auditors to help non-executive members establish open working relationships.
- Arranging meetings with the Chair, internal auditors, the finance director and risk manager in the period leading up to the committee meeting to discuss areas for the agenda and papers that should be provided.
- Arranging meetings with the internal auditors (and possibly external audit and the risk manager) immediately before the ARAC meeting to help give focus to discussions.
- The Chair should ensure that there is an appropriate process between meetings for action points arising from committee business to be appropriately pursued. The Chair should also ensure that members who have missed a meeting are appropriately briefed on the business conducted in their absence. Chairs may choose to rely on the Secretariat to take these actions.
- Consider ways in which to obtain feedback from stakeholders (e.g., internal and external audit as well as executives) on the performance of the ARAC.

Appraisal

A.2 The Chair should take the lead in ensuring that committee members are provided with appropriate appraisal of their performance as a committee member and that training needs are identified and met. The Chair should seek appraisal of their own performance from the accounting officer (or Chair of the Board, as appropriate).

A.3 The Chair should ensure that there is a periodic review (at least annually) of the overall effectiveness of the ARAC and of its terms of reference. See **Annex H.** The Chair may consider commissioning an external review at their discretion. The Chair shall ensure any areas of concern from the reviews are considered and actioned.

Appointments

A.4 The Chair shall be involved in the appointment of new committee members, including providing advice on the skills and experience being sought by the committee when a new member is appointed. The Chair should consider how to map the skills required, those skills already in place and the skills gaps to be filled.

A.5 The Chair should also be actively involved in the appointment of the head of internal audit.

Resources

A.6 The Chair is responsible for ensuring that the work of the committee is appropriately resourced.

Annex B

Committee support: good practice

B.1 The secretariat should be able to support the Chair of the committee in identifying committee business to be taken and the relevant priorities of the organisation. The Chair of the committee and the secretariat should agree procedures for commissioning briefings to accompany items on the committee's agenda and timetables for issuing meeting notices, agendas and minutes. The Chair of the committee should always review and approve minutes of meetings before they are circulated.

B.2 The specific responsibilities of the ARAC Secretariat should include:

- meeting with the Chair of the committee to prepare agendas for meetings;
- commissioning papers as necessary to support agenda items;
- circulating documents in good time before each meeting;
- arranging for executives to be available as necessary to discuss specific agenda items with the committee during meetings;
- keeping a record of meetings and providing draft minutes for the Chair's approval and circulating minutes promptly;
- ensuring action points are being taken forward between meetings and providing an update on these at each meeting;
- support the Chair in the preparation of ARAC reports to the board;
- arranging the Chair's bilateral meetings with the accounting officer, the head of internal audit, risk manager and the external auditor, and, in NDPBs, with the Chair of the Board;
- keeping the Chair and members in touch with developments in the organisation, (including providing relevant background information);
- maintaining a record of when members' terms of appointment are due for renewal or termination;
- ensuring appropriate appointment processes are initiated as required;

- ensuring new members receive appropriate induction training, and all members are supported in identifying and participating in ongoing training; and
- managing budgets allocated to the ARAC.

B.3 When the ARAC decides to meet privately, the Chair should decide whether the secretariat members should also withdraw. If so, the Chair should ensure that an adequate note of proceedings is kept supporting the committee's conclusions and advice.

Annex C

Example letter of appointment

It is recommended that the following areas be included in the Letter of Appointment of an ARAC member.

Appointment and purpose

You are hereby appointed by the [board / accounting officer *(delete as appropriate*)] as a member of the Audit and Risk Assurance Committee (ARAC) of [organisation]. As a member of the ARAC you are accountable to the [board / accounting officer] through the Chair of the committee. Your appointment is for [number] years from [date]. This appointment may be renewed [number] times (by mutual agreement) after the duration of this appointment.

The ARAC is a committee of the board of [*organisation*] and the purpose of the ARAC is to:

- review the comprehensiveness of assurances on governance, risk management and the control in meeting the board and accounting officer's assurance needs;
- review the reliability and integrity of these assurances;
- review the integrity of the financial statements and annual report; and
- advise the board and accounting officer about how well assurances support them in decision-taking and in discharging their accountability obligations.

A copy of the ARAC's Terms of Reference is [enclosed / can be found here (add link to web page) *(delete as appropriate)].* The committee is chaired by [name] and the other members are [names]. [It is recommended that the new member be provided with a list of committee member contact details]

Support and training

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

To help you understand the governance arrangements and the role of the ARAC in government, copies of **"Corporate governance in central government departments: Code of good practice"** and HM Treasury **"Audit and Risk Assurance Committee Handbook"** are also enclosed with this letter of appointment/can be found here (add links to web page) *(delete as appropriate*).

Commitment and remuneration

Your duties as an ARAC member are expected to typically take [number] days per annum, including time to read papers in preparation for meetings and a programme of activity to keep you in touch with the organisation's activities and priorities. The committee normally meets [number] times each year, but additional meetings may be required from time to time. Your remuneration will be [*include details of amount and means by which it will be paid*].

Travel and subsistence

Travel and subsistence costs will be paid in accordance with (*the organisation's*) standard arrangements. A copy of the current rates and conditions is enclosed for your information.

You are entitled to claim travel and subsistence expenses incurred as part of the work of the committee, including travel expenses to and from home to the meeting venue. You are entitled to travel standard class by rail, but the aim is to use the most efficient and economic means of travel, taking into account sustainability, subsistence costs and savings in time.

Any further clarification on [the organisation's] arrangements should be sought via the Secretary of the committee.

Conflicts of interest

You are required to register any interests you have. If during your period of appointment to the ARAC, your personal circumstances change in any way that may provide a conflict of interest for you in your ARAC role, you are to declare the circumstances to the Chair of the ARAC.

Appraisal

As a member of the ARAC you will be subject to appraisal by the ARAC Chair [include brief details of the appraisal process].

Conduct

Although your appointment does not make you a Civil Servant, you are expected to conduct yourself in your role in government in accordance with the **Seven Principles of Public Life**. A copy [is enclosed / can be found here (add link to web page) *(delete as appropriat*e)].

Termination

If you choose to resign from this appointment, you will be expected to give [number] months' notice, unless your circumstances have changed in a way that make it appropriate for you to resign immediately. If your performance as an ARAC member is decided to be unacceptable or if your conduct (including conflicts of interests) is unacceptable your appointment may be terminated by the [board / accounting officer].

Annex D

Example terms of reference

The board has established an Audit and Risk Assurance Committee (ARAC) as a committee of the board to support them in their responsibilities for governance, risk management and control by reviewing the comprehensiveness of assurances in meeting the board and accounting officer's assurance needs and reviewing the reliability and integrity of these assurances.

Membership

The members of the ARAC are:

- non-executive board members: [list those who are appointed to the ARAC].
- independent External members: [list those who are appointed to the ARAC; in all cases indicate the date of appointment and when the appointment is due to end / become eligible for renewal)

The ARAC shall be chaired by [name].

Reporting

- The ARAC shall formally report (either verbally or in writing) to the board and accounting officer after each meeting.

The ARAC shall provide the board and accounting officer with a written Annual Report, timed to support finalisation of the accounts and the Governance Statement, summarising its conclusions on the effectiveness of the control framework in place from the work it has done during the year.

Responsibilities

The ARAC shall advise the board and accounting officer on:

- the strategic processes for governance, risk management and control and the Governance Statement;
- the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts, prior

to submission for audit, levels of error identified, and management's letter of representation to the external auditors;

- the planned activity and results of both internal and external audit;
- adequacy of management response to issues identified by audit activity, including external audit's management letter;
- assurances relating to the management of risk and corporate governance requirements for the organisation;
- the effectiveness of the internal control environment;
- (where appropriate) proposals for tendering for either internal or external audit services or for purchase of non-audit services from contractors who provide audit services;
- anti-fraud policies, whistleblowing processes, and arrangements for special investigations; and
- the ARAC shall also periodically review (at least annually) its own effectiveness and report the results of that review to the board. The Chair may consider commissioning an external review if considered necessary. See **Annex H** for a self-assessment checklist.

Rights

The ARAC may:

- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience;
- procure specialist ad-hoc advice at the expense of the organisation, subject to budgets agreed by the board.

Access

The head of internal audit and the representative of external audit shall have free and confidential access to the Chair of the ARAC.

Meetings

- The ARAC shall be provided with a secretariat function by [name];
- The ARAC shall meet at least four times a year. The Chair of the ARAC may convene additional meetings, as they deem necessary;
- A minimum of [number] members of the ARAC shall be present for the meeting to be deemed quorate;
- ARAC meetings will normally be attended by the accounting officer, the finance director, risk manager, head of internal audit, and a representative of external audit [add any others who may routinely attend such as representatives of sponsoring / sponsored bodies];

- The ARAC may ask any other officials of the organisation to attend to assist it with discussions on any particular matter;
- The ARAC may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters; and
- The board or the accounting officer may ask the ARAC to convene further meetings to discuss particular issues on which they want the committee's advice.

Information requirements

For each meeting, unless otherwise agreed, the ARAC shall be provided (at an agreed time in advance of the meeting) with:

- a report summarising any significant changes to the organisation's strategic risks and a copy of the strategic/corporate Risk Register;
- a progress report (written or verbal) from the head of internal audit summarising:

  a) work performed (and a comparison with work planned);

  b) key issues emerging from the work of internal audit;

  c) management response to audit recommendations;

  d) changes to the agreed internal audit plan; and

  e) any resourcing issues affecting the delivery of the objectives of internal audit;
- a progress report (written or verbal) from the external audit representative summarising work done and emerging findings (this may include, where relevant to the organisation, aspects of the wider work carried out by the National Audit Office, for example, Value for Money reports and good practice findings);
- management assurance or changes to the control environment reports; and
- reports on the management of major incidents, "near misses" whistleblowing cases and lessons learned.

As and when appropriate the committee shall also be provided with:

- proposals for the review of terms of reference of internal audit / the internal audit mandate and charter;
- the internal audit strategy;
- the head of internal audit's annual opinion and report;
- quality assurance reports on the internal audit function;

- the draft annual report and accounts of the organisation;
- the draft Governance Statement;
- a report on any changes to accounting policies;
- external audit's management letter;
- a report on any proposals to tender for audit functions;
- an update on co-operation between internal and external audit;
- the organisation's Risk Management strategy and
- relevant reports from any other assurance providers, for example Gateway reviews.

The above list suggests minimum requirements for the inputs which shall be provided to the ARAC. In some cases, more may be provided. For instance, it might be agreed that ARAC members should be provided with a copy of the report of every internal audit assignment.

Annex E

Example core work programme

Standing Items for each meeting

- Review the organisation’s strategic risk register and risk management processes (including compliance with the Orange Book) put in place by the executive team and consider undertaking deep dives into specific risks.
- Consider the Head of Internal Audit’s update and any individual reports, as required.
- Consider any reports from other sources of assurance.

Spring Meeting

- Consider progress/planning for the annual report and accounts.
- Consider the external audit update report (findings for the current year and plans for their review of annual report and accounts).
- If available, consider / advise on the contents of the (draft) Governance Statement for the financial year just ended.
- Review the Internal Audit mandate, charter, terms of reference, strategy and the periodic work plan for the coming financial year.
- Consider counter fraud work plans for the coming year, including ensuring a review of the counter fraud strategy and policy for the organisation.
- Consider the committee's own effectiveness.

Summer Meeting

- Review and consider the annual report and accounts (particularly the annual Governance Statement) and advise the accounting officer who is responsible for signing them.
- Consider the (emerging) External Audit opinion and findings on the annual report and accounts.
- Consider Head of Internal Audit annual report and opinion.
- Consider annual reports on counter fraud, whistleblowing and conflicts of interest.

- Agree the ARAC's annual report to the board.

Some ARACs choose to have an additional separate meeting timed to deal with the pre-recess finalisation of the annual report and accounts.

Autumn Meeting

- Consider the external audit management letter for the previous financial year and the response to / plans for implementation of any recommendations.
- Consider the external audit strategy proposed in respect of current year's annual report and accounts.

Winter Meeting

- Consider external audit update/strategy on proposed work.
- Consider areas in which the committee will particularly promote cooperation between the auditors, other assurance providers and review bodies.
- Review the committee's Terms of Reference.
- Consider updates on counter fraud work, whistleblowing and conflicts of interest.

Annex F

Key questions for an Audit and Risk Assurance Committee to ask

This list of questions is not intended to be exhaustive or restrictive nor should it be treated as a tick list substituting for detailed consideration of the issues it raises. Rather it is intended to act as a "prompt" to help an ARAC ensure appropriate areas are considered.

On accounting officer decision making, how do we know that:

- decisions are made to support ministers/sponsoring department with clear well-reasoned, timely and impartial advice?
- decisions are made in line with strategy, aims and objectives of the organisation set by ministers/sponsoring department and/or in legislation?
- a balanced view of the organisation's approach to managing risk and opportunity is taken?
- only proportionate and defensible burdens on business is imposed?

On the strategic processes for governance, risk management and control how do we know that:

- the risk management culture is appropriate?
- the Orange Book on risk has been reviewed and complied with?
- the board annually reviews and clearly articulates and communicates its risk appetite?
- there is a comprehensive process for identifying and evaluating risk, and for deciding what levels of risk are tolerable?

- the Risk Register is an appropriate reflection of the risks facing the organisation?
- appropriate ownership and management of risk is in place?
- risk management is carried out in a way that really benefits the organisation or is it treated as a box ticking exercise?
- the organisation as a whole is aware of the importance of risk management and of the organisation's risk priorities?
- is cumulative impact of risks considered?
- that the internal control framework is designed and implemented in accordance with relevant standards and best practices?
- management has an appropriate view of how effective the control environment is? How and to whom is this reported?
- will the system of control provide timely indicators of things going wrong?
- does management respond to internal control deficiencies or incidents, and are root causes and corrective actions identified and tracked?

On risk management processes, how do we know:

- how senior management and Ministers support and promote risk management?
- how well people are equipped and supported to manage risk well?
- that there is a clear risk strategy and policy?
- that the organisation's risk appetite and tolerance have been reviewed and articulated?
- that there are effective arrangements for managing risks with partners?
- that the organisation's processes incorporate effective risk management?
- if risks are handled well, considering:

  a) key strategic risks can change very quickly?

  b) scenario planning and stress testing?

  c) 'bubbling under' risks?
- the risk focus is wide enough:

  a) considers 'external and emerging risks'?

b) reviews ‘financial’ risks and ‘non-financial’ risks?

- if risk management contributes to achieving outcomes?
- are management regularly reviewing top risks?

The Orange Book provides more detail on risk management processes, including in part 2 advice on the risk control framework including three lines of assurance.

On the organisation’s whistleblowing arrangements how do we know that:

- there are appropriate and effective whistleblowing practices in place?
- these provide suitable channels for staff and others to raise their concerns?
- the policies appropriately cover the issues on confidentiality and anonymity?
- that whistleblowers are offered appropriate support and provided with suitable and timely feedback?
- that concerns raised are dealt with properly and reported to senior management?

On the planned activity and results of internal work, how do we know that:

- the internal audit strategy is appropriate for delivery of reasonable assurance on the whole of governance, risk management and control?
- the internal audit plan will achieve the objectives of the internal audit strategy, and in particular whether it is adequate to facilitate reasonable assurance on the key risks facing the organisation?
- internal audit has appropriate resources, including skills, to deliver its objectives?
- internal audit takes appropriate account of other assurance activity, especially in the first and second line (and that this assurance is understood and owned by management)?
- internal audit recommendations that have been agreed by management are actually implemented?
- any issues arising from line management not accepting internal audit recommendations are appropriately escalated for consideration?
- the quality of internal audit work is adequate? What does the latest assessment quality assessment show?

- there is appropriate co-operation between the internal and external auditors?

Internal Audit Services should periodically have an external quality assessment against the professional standards mandated for internal audit in the public sector. Results should be reported to and considered by the ARAC.

On financial management, the accounting policies, the annual report and accounts of the organisation, do we know:

- how effective and accurate budgeting and in-year forecasting is?
- if the finance section is fit for purpose?
- does the director of finance provide relevant information, reports and advice to the committee?
- is the use of resources planned on an affordable and sustainable basis, within agreed limits?
- what the “hidden” financial risks are, relating to (inter alia):

  a) HR?

  b) VAT?

  c) Overruns?

  d) Sudden loss of funding/revenue?
- that the accounting policies in place comply with relevant requirements, particularly the Government Financial Reporting Manual?
- there has been due process in preparing the accounts and annual report and that the process is robust?
- that the annual report and accounts have been subjected to sufficient review by management and by the accounting officer and / or board?
- that when new or novel accounting issues arise, appropriate advice on accounting treatment has been gained?
- that there is an appropriate anti-fraud policy in place and that losses are suitably recorded and responded to?
- that suitable processes are in place to ensure fraud is guarded against and regularity and propriety is achieved?
- that suitable processes are in place to ensure accurate financial records are kept?

- there are effective internal controls to safeguard, channel and record resources as intended?
- that financial control, including the structure of delegations, enables the organisation to achieve its objectives with good value for money?
- if there are any issues likely to lead to qualification of the accounts?
- if the accounts have been qualified, that appropriate action is being taken to deal with the reason for qualification?
- that issues raised by the external auditors are given appropriate attention?

On the adequacy of management response to issues identified by audit activity, how do we know that:

- the implementation of recommendations is monitored and followed up?
- there are suitable resolution procedures in place for cases when management reject audit recommendations, especially if management has accepted a level of risk that exceeds the organisation's risk appetite/tolerance?

On assurances relating to the corporate governance requirements for the organisation and the annual Governance Statement how do we know that:

- corporate governance arrangements operate effectively and are clear to the whole organisation?
- the organisation has a governance structure which transmits, delegates, implements and enforces decisions?
- the accounting officer's Governance Statement correctly reflects key issues, and that robust evidence underpins it?
- the Governance Statement appropriately discloses action to deal with material problems?
- the Board is appropriately considering the results of the effectiveness review underpinning the annual Governance Statement?
- the range of assurances available is sufficient to facilitate the drafting of a meaningful annual Governance Statement?
- those producing the assurances understand fully the scope of the assurance they are being asked to provide, and the purpose to which it will be put?

- effective mechanisms are in place to ensure that assurances are reliable and adequately evidenced?
- assurances are 'positively' stated (i.e., premised on sufficient relevant evidence to support them)?
- the assurances draw appropriate attention to material weaknesses or losses which should be addressed?
- the annual Governance Statement realistically reflects the assurances on which it is premised?

Guidance on the Governance Statement can be found in Chapter three of Managing Public Money.

On the work of the ARAC itself, how do we know:

- that we are being effective in achieving our terms of reference and adding value to governance, risk management and control systems of the organisation?
- that we have an appropriate skills mix?
- that we have an appropriate level of understanding of the purpose and work of the organisation?
- that we have sufficient time to give proper consideration to our business?
- that our individual members are avoiding any conflict of interest?
- what impact we are having on the organisation?

Annex H of this handbook contains a self-assessment checklist that ARACs may use.

On the risk of cyber security, how do we know that:

- there is sufficient assurance that the organisation is properly managing its cyber risk, including having appropriate risk mitigation. Does the committee have responsibility for review of the draft strategies?
- the organisation has properly identified and evaluated the cyber security risk?
- there are proper governance arrangements and controls to protect from, detect and respond to cyber security attacks/incidents (for example there is board member (or equivalent) with a specific security remit?
- who ensures government expectations and standards relating to cyber security are considered and implemented within the organisation?

- does the organisation have suitably skilled and experienced staff, or access to such staff to deal with incidents?
- is there suitable awareness and ongoing training within the organisation on the risk from cyber-attack?

On Environmental, Social and Governance (ESG) reporting how do we know that:

- ESG is effectively managed (what assurance is available)?
- are we in compliance with legal and regulatory obligations for ESG?
- what standards has the organisation adopted for ESG reporting?
- is ESG integrated with the organisation's strategies and risk management framework?
- does the organisation have a specific senior person responsible for ESG?
- are ESG targets sufficiently stretching to meet the expectations of our key stakeholders?
- how is ESG information collected and what are the data collection policies?
- what controls are in place to ensure that ESG information is reliable and complete?

On Artificial Intelligence (AI) how do we know that:

- we are able to answer with confidence if we are using AI?
- who owns our AI strategy at Executive level?
- the strategy is aligned with our risk appetite?
- we have the appropriate expertise to oversee AI development?
- how prepared we are for new regulation?
- all relevant business areas are involved when procuring or developing AI?

Annex G
Competency framework

All members of the ARAC should have, or acquire as soon as possible after appointment:

- understanding of the objectives of the organisation and its current significant issues and risks;
- understanding of the organisation's structure, including governance arrangements and key relationships such as that with a sponsoring department or a major partner;
- understanding of the organisation's culture;
- understanding of any relevant legislation or other rules governing the organisation; and
- broad understanding of the government environment, particularly accountability structures and current major initiatives.

The ARAC should collectively possess:

- knowledge / skills / experience (as appropriate and required) in:

  a) accounting;

  b) risk management;

  c) internal / external audit; and

  d) technical or specialist issues pertinent to the organisation's business.

- experience of managing similar sized organisations;
- understanding of the wider relevant environments in which the organisation operates; and
- detailed understanding of the government environment and accountability structures.

Annex H

Audit and Risk Assurance Committee Self-assessment Checklist

Role and remit	YES/NO/NA	Comments/Action
1. Does the committee have written terms of reference?		
2. Are the terms of reference regularly reviewed?		
3. Do the terms of reference clearly set out the committee's role and are they consistent with the example terms of reference in this ARAC handbook?		
~~4.~~ Are the terms of reference approved by the committee and the board?		
5. Are the terms of reference made publicly available?		
6. Has the committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?		
7. Do committee members have appropriate authority to require reports on areas of the committee's responsibilities?		

8. Does the organisation’s annual report and accounts/ Governance Statement mention the committee's existence and its broad purpose?		
Membership, induction, and training	YES/NO/NA	Comments/Action
9. Has the membership of the committee been formally agreed by the board and/or accounting officer and a quorum set?		
10. Does the committee have at least three members (or the number stated in the agreed terms of reference) who are independent and objective?		
11. Are members appointed for a fixed term?		
12. Do all members of the committee have a clear understanding of what is expected of them in their role, including: • time commitments, the duration of their appointment, training required and how this will be provided • an understanding of the organisation – strategy, operating environment and key risks • role of the board in managing risk and of the committee in supporting the board to provide review and challenge?		
13. Have members received formal appointment letters (setting out their terms of appointment including work required) before their term of office commenced?		
14. Does the committee have the relevant/required range of skills in governance, risk, control, and financial management and is this reviewed on a regular basis?		
15. Does at least one committee member have recent and relevant financial experience?		

16. Is the committee empowered to co-opt members and procure specialist advice to support them when needed?		
17. a. Is the Chair a Non-Executive Board member (NEBM) with relevant experience to chair the committee? 17. b. Is at least one other member a NEBM? 17. c. Do governance processes ensure the chair of the board is not a member of the committee?		
18. Are new committee members provided with an appropriate induction, including training to help them understand the public sector accountability framework, if they have not previously worked within central government?		
19. Does the induction include a programme of engagement with the organisation to help members understand: • the organisation, its objectives, business needs, priorities, risk profile and challenges • the organisation's vision and purpose • the organisation's corporate governance arrangements?		
20. Are regular training and development opportunities (especially for recent developments or emerging risk areas) considered and implemented for committee members?		
21. Has each member formally declared their business interests and/or conflicts of interest and have these been appropriately dealt with?		
22. Are members sufficiently independent of the other key committees of the board?		

23. Has the committee considered the arrangements for assessing the attendance and performance of each member, including the chair?		
Meetings	YES/NO/NA	Comments/Action
24. Does the committee meet regularly and at least four times a year?		
25. Do the terms of reference set out the frequency?		
26. Does the committee calendar meet the organisation's business and governance needs, as well as the requirements of the financial reporting calendar?		
27. Are members attending meetings on a regular basis and if not, is appropriate action taken?		
28. Does the accounting officer attend all meetings and, if not, are they provided with a record of discussions?		
29. Does the director of finance attend all meetings and, if not, are they provided with a record of discussions?		
30. Does the committee have the benefit of attendance of appropriate officials at its meetings, including representatives from internal audit, external audit, finance and if relevant, the sponsoring/sponsored body?		
31. Does the committee meet privately without any non-members present for all or part of a meeting if considered necessary?		

32. Do committee members or the committee chair meet separately with relevant executives as required (especially the accounting officer and any relevant newly appointed executives soon after their appointment)?		
33. a. Is a verbal or written report summarising the business taken by the committee provided to the board after each meeting? 33. b. Does the verbal or written report offer views and advice from the committee on issues that require the board or accounting officer to take action?		
Internal control	YES/NO/NA	Comments/Action
34. Does the committee consider the findings of reviews by internal audit and others, on the effectiveness of the arrangements for governance, risk management and control?		
35. Does the committee: • have an understanding of the overall assurances provided within the organisation (by the three lines)? • consider adequacy of these assurances, especially for outsourced services?		
36. If the Committee does not consider the overall assurance provided to be adequate, does the committee raise these concerns to the executive to commission additional work?		
37. Does the committee consider: • how meaningful the Governance Statement is? • if all pertinent issues have been included in the Governance Statement from the work the committee has undertaken during the reporting period?		

38. Does the committee satisfy itself that the arrangements for governance, risk management and control have operated effectively throughout the reporting period?		
39. Has the committee undertaken deep dives into significant risks to review and challenge management's actions to manage and mitigate the risk?		
40. Has the committee considered how it should coordinate with other committees that may have responsibility for risk management and corporate governance?		
41. Has the committee satisfied itself that the organisation has adopted appropriate arrangements to counter and deal with fraud, including reporting losses, investigating fraud incidents, and submitting quarterly returns to the Cabinet Office?		
42. Does the committee receive regular reports on: • anti-fraud policies; • whistleblowing processes; • arrangements for special investigations; and • relevant cases and near misses?		
43. Has the committee been made aware of the role of risk management in the preparation of the internal audit plan?		
44. Does the committee's terms of reference include oversight of the risk management process to ensure risks are managed and new risks will be identified?		
45. Does the committee review the corporate risk register to ensure it reflects key strategic risks?		

46. Does the committee consider/challenge assurances provided by senior staff on the adequacy and effectiveness of control processes?		
47. Does the committee ensure any significant weaknesses found have been appropriately dealt with?		
Financial reporting and regulatory matters	YES/NO/NA	Comments/Action
48. Is the committee's role in the consideration of the annual report and accounts clearly defined?		
49. Does the committee review the annual report and accounts (including the Governance Statement) and discuss the comprehensiveness, reliability and integrity of assurances in meeting the board and accounting officer's needs?		
50. Does the committee gain an understanding of management's procedures for preparing the organisation's annual report and accounts?		
51. Does the committee consider, as appropriate: • the suitability of accounting policies and treatments and / or changes in accounting treatment • assurances regarding the financial systems that produce the accounts • major judgements made (and if specialists were used to help with the judgements) • large write-offs • the reasonableness of accounting estimates • the narrative aspects of reporting • any differences of opinion between the auditor and executives?		

52. Is a committee meeting scheduled to receive the external auditor's report to those charged with governance including a discussion of proposed adjustments to the accounts and other issues arising from the audit?		
53. Does the committee review management's letter of representation?		
54. Does the committee have a mechanism to keep it aware of topical legal and regulatory issues?		

Internal audit	YES/NO/NA	Comments/Action
55. Does the Head of Internal Audit attend meetings of the committee?		
56. Does the committee consider, annually and in detail, the annual internal audit plan (and fee) including consideration of whether the scope of internal audit work addresses the body's significant risks and does not duplicate assurances provided by other lines?		
57. Has the committee considered the internal audit mandate/formal terms of reference/internal audit charter defining internal audit's objectives, responsibilities, authority and reporting lines?		
58. Does internal audit have a direct reporting line, if required, to the committee?		
59. Has the committee considered the information it wishes to receive from internal audit?		
60. Does the committee - receive progress reports from internal audit and review and challenge progress? - review the annual report from the Head of Internal Audit?		

61. Are outputs from follow-up audits by internal audit monitored by the committee and does the committee consider the adequacy of implementation of recommendations?		
62. Does the committee (chair) hold private discussions with the Head of Internal Audit at least once annually?		
63. Is there appropriate co-operation between the internal and external auditors?		
64. Does the committee review • the adequacy of internal audit staffing and other resources • internal audit performance measures • reports on internal audit quality assurance arrangements?		
External audit	YES/NO/NA	Comments/Action
65. Does the external audit representative attend meetings of the committee?		
66. Do the external auditors present and discuss their audit plans and strategy with the committee (recognising the statutory duties of external audit)?		
67. Does the committee challenge external audit plans if considered not to cover key risks?		
68. Does the committee (chair) hold periodic (at least annually) private discussions with the external auditor?		
69. Does the committee review the external auditor's annual report to those charged with governance?		

70. Does the committee ensure that executives-are monitoring action taken to implement external audit recommendations?		
71. Are reports (including general value for money reports) on the work of external audit presented to the committee?		
72. Does the committee assess the performance of external audit?		
73. Does the committee consider the external audit fee and challenge it if considered inappropriate?		
Administration	YES/NO/NA	Comments/Action
74. Does the committee have a designated secretariat and is the secretariat sufficient to deal with the committee’s business?		
75. Is a draft forward workplan for the committee agreed at the start of each financial year to adequately cover all areas of the committee’s responsibility?		
76. Are agenda papers circulated in advance of meetings to allow adequate preparation by committee members and attendees?		
77. Do reports to the committee communicate relevant information at the right frequency, time, and in a format that is effective?		
78. Does the committee issue guidelines and/or a proforma concerning the format and content of the papers to be presented?		
79. Are minutes prepared and circulated promptly (after review by the chair) to the appropriate people?		

80. Is a report on matters arising from committee meetings presented and/or does the chair raise them at the committee's next meeting?		
81. Do action points indicate the owner and due date?		
82. Does the committee provide an effective annual report on its own activities, which is timed to support the preparation of the Governance Statement?		
Role of the Chair of the committee	YES/NO/NA	Comments/Action
83. Is the chair involved in the appointment of new committee members and the head of internal audit?		
84. Does the chair agree the annual core programme of work and agendas for each meeting?		
85. Does the chair ensure: • meetings run effectively and efficiently? • additional meetings are convened as required? • the number of meetings held are sufficient to allow the committee to consider all relevant areas?		
86. Does the chair ensure: • committee has access to appropriate resources and support and committee budget is managed? • Members work collaboratively? • an effectiveness review is undertaken (or an external review is commissioned if considered relevant)? • internal and external audit have free and confidential access if required? • governance needs of sponsor/ALB are		

considered?		
Overall	YES/NO/NA	Comments/Action
87. Does the committee effectively contribute to the overall control environment of the organisation?		
88. Are there any areas where the committee could improve upon its current level of effectiveness?		
89. Does the committee seek feedback on its performance from the board and accounting officer?		
90. Do you have any further comments?		

HM Treasury contacts

This document can be downloaded from www.gov.uk

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Paper Number AUD 36-24

CONFIDENTIAL

ARAC 17th October 2024

Functional Standards

Audit and Risk Assurance Committee (ARAC)

Date: 17 October 2024

Paper reference: AUD 37-24

Agenda item: 3.3

Author: Gisela Amabilino

Protective marking: OFFICIAL/CONFIDENTIAL

Health and Safety Update

Purpose of paper

1. To provide an update to ARAC on the HTA's arrangements and management of health and safety.
2. To seek approval from ARAC on the mechanism to report on health and safety matters.

Action required

3. ARAC is asked to note the progress made to date at paragraph 18 and approve the management reporting process on the key health and safety matters at paragraph 19.

Decision making to date

4. No formal decisions have been made to date.

Background

5. As an employer, the HTA has a responsibility, under health and safety legislation and regulations, to ensure, improve and promote, as far as reasonably practicable the health and safety of its employees at work.
6. The Health and Safety at Work etc, Act 1974[1] is the primary legislation that provides the framework to promote, stimulate and encourage excellent health and safety at work standards with delegated responsibilities through the Chief Executive Officer to the Director of Resources to implement systems to

[1] Health and Safety at Work etc. Act 1974 (legislation.gov.uk)

ensure that HTA staff, and those affected by HTA activities, work in a safe and compliant manner to protect themselves and others from harm.

7. The Management of Health and Safety at Work Regulations 1999[2] sets out the requirements placed on the HTA to put in place arrangements to control health and safety risks.

Management of Health and Safety

8. In recognising its statutory obligations under the relevant health and safety legislation and regulations, the HTA will apply and continue to observe the Health Safety Executives: Managing for Health and Safety Guidance (HSG65).

9. The guidance sets out the Plan, Do, Check, Act (PDCA) approach to achieving the right balance between the systems and behavioural aspects of health and safety management.

10. More importantly, the PDCA model treats health and safety management as an integral part of good management more generally as opposed to a stand-alone system. It can be summarised as follows:

Plan	Determine policy and plan for implementation
Do	Profile health and safety risks, organise for health and safety and implement the plan
Check	Measure performance, investigate accidents and incidents
Act	Review performance and apply actions to lessons learned

11. By applying the PDCA approach, the HTA will promote a health and safety culture that is embedded throughout the organisation.

Health and Safety Internal Audit

12. In Q4 2023/24, the GIAA carried out an audit on the HTA's arrangements to the management of health and safety.

13. The aim of the review was to assess the following areas:

    - The arrangements in place to manage and report on health and safety

    - The arrangements for ensuring compliance with legislative requirements

[2] The Management of Health and Safety at Work Regulations 1999 (legislation.gov.uk)

- How the HTA receives assurances around its health and safety compliance

14. The final audit report set out 10 recommendations for areas of improvement which centred on:

    - Reviewing and updating health and safety policies and associated risk assessments
    - Management reporting
    - Staff consultations
    - Staff training
    - Incident reporting and investigating
    - Continuous improvements
    - Compliance assurances

15. Prior to the audit, the HTA had commenced a piece of work around reviewing the existing health and safety arrangements. The Business Manager (BM) met with the Business Delivery Team (BDT) and Regulation Managers (RMs) to capture views and feedback.

16. Following the initial discussion, a paper was presented to the Senior Management Team (SMT) providing an update of the initial consultations with colleagues and a summary of the key H&S legislation for consideration in assessing compliance.

17. An action was taken to build on the initial conversations and establish a baseline assessment of the health and safety arrangements. The BM led an information gathering session to capture feedback from staff from across the organisation on the health and safety arrangements and matters affecting them that would feed into the plan for implementation.

18. To date, the Resources team has focused on planning for the implementation of the recommendations as set out in the final report. Specifically, the team have:

    - Reviewed and updated the health and safety policy, which has been approved by the SMT;
    - Met with health and safety teams from the Care Quality Commission (CQC), the Food Standards Agencies and the National Institute for Health and Care Excellence, to discuss approaches to risk management (policies, procedures and risk assessments) to align with best practices and standards;

- In supporting the Director of Resources and SMT, the BM has received the Institute of Occupational Safety and Health (IOSH) Managing Safely certificate from the British Safety Council;
- Worked with CQC's HR Strategic Business Partner to review and update HR policies linked to health and safety (i.e. home and lone working);
- Reviewed the health and safety training as part of the mandatory training plan that has been released to staff;
- Developed the mechanism for reporting and investigating accidents, incidents and near misses (reporting form, reporting log);
- Developed a dedicated health and safety page on the HTA's intranet to make health and safety information and resources accessible to staff;
- Reviewed existing general and individual risk assessments and develop new assessments as required when new risks are identified;
- Established a mechanism for reporting to the Board/ARAC and SMT on health and safety issues and how they are being managed on a quarterly basis or as required.

Management Reporting

19. As part of the HTA's management of health and safety, there will be regular reporting cycles throughout the year of the key health and safety matters affecting staff to SMT (monthly) and the Board (quarterly).

20. Regular reporting will facilitate informed decision-making, encourage continuous improvement, ensure compliance with legal requirements and contribute to a safe working environment.

21. The reporting cycle will be mapped out as follows:

Reporting authority	Frequency	Mechanism	Responsible for reporting
HTA Board	Quarterly (or as required)	Performance report	Business Manager
SMT	Monthly (or as required)	Portfolio SMT pack	Business Manager

22. The Board Performance report will include a health and safety heading, which will provide an overview with sub-headings on the following topics:

Incident reporting

As per the agreed incident reporting mechanism, number of incidents and any relevant commentary

Health and Safety Training

The mandatory training for Q1 and Q2 included a general overview of health and safety course. The courses for Q3 focused on display screen equipment, personal safety, an introduction to remote working and mental health.

The HTA will routinely review the health and safety training plan annually to ensure the training needs around health and safety are reflected in the course selections.

Risks

The Resources team have initially engaged with the

Continuous Improvements

Actions from keeping up to date with Health and Safety Executive updates and changes based on lessons learned analysis of incidents, etc.

23. The first cycle of the management reporting will be included within the Performance report for the 5 December Board meeting.

Is ARAC content to approve this approach?

Next steps

24. The Resources team will continue to submit evidence to the GIAA to close off the outstanding recommendations.

25. Once the recommendations have been closed, the team will focus on the implementation phase and roll out to staff.

Recommendation

26. ARAC is asked to note and approve, if content, with the proposed health and safety management reporting process and cycle starting at paragraph 19.

Between-meeting information paper for Board, xx June 2024

ARAC Chair's Annual 2023-24 report to HTA Board

Agenda item	N/A
For information or decision?	Information
Decision making to date?	N/A
Recommendation	To note
Which strategic risks are relevant?	All
Strategic objective	Efficient and Effective
Core operations / Change activity	Core operations
Business Plan item	Audit and Risk – coordination of appropriate organisation controls to facilitate scrutiny and oversight by stakeholders
Committee oversight?	Audit and Risk Assurance Committee
Finance and resource implications	N/A
Timescales	Routine Annual report
Communication(s) (internal/external stakeholders)	N/A
Identified legislative implications	N/A

ARAC Chair's Annual report to HTA Board for 2023-24

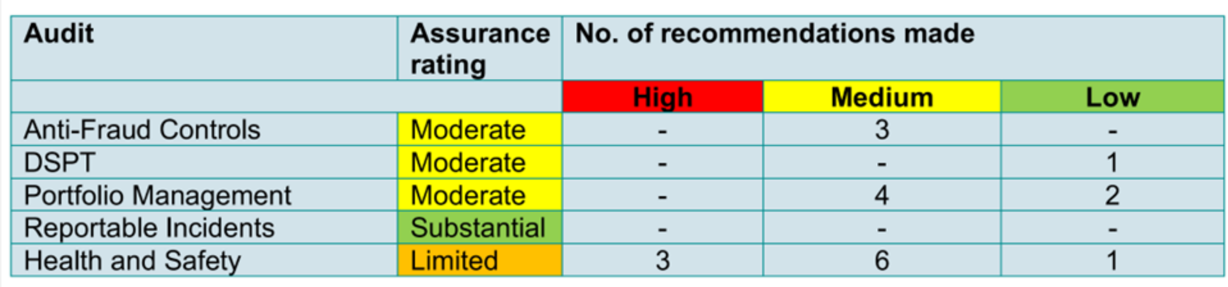
1. The Audit, Risk and Assurance Committee is made up of three board members and provides an independent view to the Chief Executive and the Board of the organisation's internal controls, operational effectiveness, governance, and risk management. This includes an overview of internal and external audit services, risk management and counter-fraud activities. The Committee is authorised to investigate any activity within its terms of reference and to seek any information that it requires from any employee. It is able to seek legal or independent professional advice and secure the attendance of external specialists.

2. The Committee met three times during 2023/24. At each of these meetings, the Committee received a number of standing agenda items. These include declarations of any identified fraud or losses, including any data losses and updates on strategic risks.

3. During the year, the Committee also received reports on several other appropriate matters within its terms of reference. These included internal audit plans and reports, cyber security updates and dashboards; an update on progress of the Data Security and Protection Toolkit (DSPT) assessments and responses; risk management policy including an amended risk appetite statement; a deep dive into a key strategic risk areas and critical incident and business continuity and disaster recovery plans.

4. The Committee reviewed the HTA's counter-fraud arrangements, in the context of the Cabinet Office counter-fraud framework and reviewed the counter-fraud strategy and fraud risk assessments, to satisfy itself that appropriate arrangements are in place. In addition, the committee received an update on the work being progressed in respect of Functional Standards – those that are applicable to the HTA and agreed the proportionate approach being taken.

5. In 2023/24, the ARAC received internal audit reports in the table below with the areas they covered, detailed below:



Audit	Assurance rating	No. of recommendations made		
		High	Medium	Low
Anti-Fraud Controls	Moderate	-	3	-
DSPT	Moderate	-	-	1
Portfolio Management	Moderate	-	4	2
Reportable Incidents	Substantial	-	-	-
Health and Safety	Limited	3	6	1

a) **Anti-fraud controls**. Providing assurance on the adequacy of governance, risk management, and control frameworks. Areas considered were adequacy of anti-fraud controls in place and staffs understanding of roles and

DRAFT

responsibilities in relation to anti-fraud controls. The recommendations which have since been actioned, covered the following areas:

- Alignment of the Action plan with the Counter Fraud Strategy
- Establish a 100% target as a performance metric
- Inclusion of emerging risk from either external audits or Counter Fraud Liaison Group meetings

b) **Data Security Protection Toolkit (DSPT).**The review was conducted in order to satisfy the annual requirement for assessment of the DSPT submission. The review focused on 13 mandatory assertions and the subsequent evidence. The ‘Moderate’ rating given related to a single recommendation that required us to address in full the DSPT assertions from 2022/23, prior to the next round of submissions.

c) **Health and Safety**. The review assessed the adequacy of arrangements in place regarding Health and Safety within the HTA, with a particular focus on ensuring the health and safety of staff who work remotely. A ‘Limited’ opinion was given due in part to the 3 high-rated risks. This audit was recommended as we were aware that gaps existed due to staff changes (resignation of the Director of Resources), and the move to an HR Shared Service model. The 3 high-rated recommendations relate to the following areas:

- Management reporting to the Accounting Officer and Authority.
- A Health and Safety forum for staff to raise Health and Safety concerns
- Inclusion of Health and Safety within the strategic risk register.

Of the ten Health and Safety recommendations, 9 are due to be completed by quarter 3 of the 2024/25 business year, with the final recommendation
n which relates to continuous improvements, due by March 2025.

d) **Portfolio Management.** Provision of an independent, objective evaluation of, and opinion on, the overall adequacy and effectiveness of the framework of control in place across the HTA’s PfO function. Of the 6 recommendations, there are 2 medium, one which relates to analysis of risk across projects and the second relating to working collaboratively with teams to ensure the necessary governance documentation and reporting requirements are completed in an appropriate level of detail

e) **HTA Reportable Incidents**. Provision of an independent view on the effectiveness of the HTA Reportable Incidents process, and the robustness of the oversight arrangements in place, with a particular focus on incidents rated as ‘high’ or ‘critical’ severity. A substantial rating with no recommendations was achieved.

6. Recommendations to deliver remedial actions and new improvements from each of these reports have been agreed between Internal Audit and SMT, and progress against completion of these recommendations is monitored collectively by SMT monthly through our portfolio management process. As a result, during

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23/24 we have reduced the number of outstanding recommendations and the time to completion.

7. The ARAC undertook its effectiveness review in February 2024 using the National Audit Office Audit and Risk Assurance Committee effectiveness tool, with the majority of areas of review scoring on average between meeting standards and excelling. The ARAC discussed the outcome of this review at its meeting of June 2024 and will develop an appropriate set of actions.

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