

REVIEW OF AUDIT AND RISK COMMITTEE TERMS OF REFERENCE

1. Purpose of the paper

1.1. To invite the Board to:

- **review** the Terms of Reference for the Audit and Risk Committee.

2. Background

- 2.1. The Terms of Reference for the Board specify that the Board is to agree, and then annually review, the Terms of Reference and reporting arrangements for any Committee that it establishes. The Terms of Reference for the ARC require it to periodically review its own effectiveness, including performance, constitution and terms of reference, and report the results of that review to the Board and Accountable Officer, recommending any changes it considers necessary.
- 2.2. The ARC discussed and agreed a recommendation for an amendment to its Terms of Reference at its full meeting on 22nd November 2017. The recommended change comes in the form of an amendment to the introductory 'Purpose' section. The amendment conveys the ARC's position as a provider of advice to the Accountable Officer.
- 2.3. The current version 2 of the Terms of Reference, as agreed on 14th December 2016, is at Annex A, with the proposed changes to paragraph 1 highlighted in red. The amended paragraph is also copied below for ease of reference:

*The Board has established an Audit and Risk Committee ('the ARC') as a Committee of the Board to support them **it and advise the Accountable Officer** in their **respective** responsibilities for issues of risk, control and governance and associated assurance through a process of constructive challenge. ~~The ARC is responsible for reviewing, in a non-executive capacity, the comprehensiveness and reliability of assurances on governance, risk management and the control environment. It is also responsible for reviewing the integrity of financial statements and the annual report.~~*

3. Conclusion

3.1. The Board is asked to :

- **review** the Terms of Reference for the Audit and Risk Committee.

Sue Walker, Chair of Audit and Risk Committee
31st January 2018

ANNEX A**FOOD STANDARDS SCOTLAND BOARD
AUDIT AND RISK COMMITTEE****TERMS OF REFERENCE****Purpose**

1. The Board has established an Audit and Risk Committee ('the ARC') as a Committee of the Board to support them **it and advise the Accountable Officer** in their **respective** responsibilities for issues of risk, control and governance and associated assurance through a process of constructive challenge. ~~The ARC is responsible for reviewing, in a non-executive capacity, the comprehensiveness and reliability of assurances on governance, risk management and the control environment. It is also responsible for reviewing the integrity of financial statements and the annual report.~~

Membership

2. The ARC is appointed by the Board. The ARC will include at least one member with recent and relevant financial experience, and may include as a member an independent and external person who is not a member of Food Standards Scotland. The ARC shall be composed of at least four non-executive Board members, or at least three non-executive members and one independent external member, where such a person is appointed. One of the non-executive members shall act as Chair. Non-executive ARC members will be appointed for terms that coincide with their terms of appointment, or for two or four years, in order to manage succession and provide continuity.
3. The Chair of the ARC will be appointed from the membership of the ARC by the FSS Chair under delegated powers.
4. The ARC will be provided with a secretariat function by the FSS Board secretariat.

Rights

5. The ARC may:
 - co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience; and
 - procure specialist ad-hoc advice at the expense of FSS, subject to budgets agreed by the Board or Accountable Officer.

Access

6. The Heads of Internal Audit and the representative of External Audit will have free and confidential access to the Chair of the ARC.
7. The Chair of the ARC will have free and confidential access to the Chair and Chief Executive of FSS whenever appropriate.

Reporting

8. The ARC will formally report to the Board after each meeting.
9. A copy of the ARC minutes will be provided to the Board once agreed by the ARC .
10. The ARC will provide the Board with an Annual Report, outlining its work during the previous financial year.
11. The ARC will provide an assurance statement to the Board and the Accountable Officer for use in the Board's consideration of the Annual Report and Accounts. This statement will incorporate the consideration of the assurance reports of the Internal Auditors and the views expressed by Audit Scotland.

Meetings

12. The procedures for meetings are:
 - the ARC will meet at least four times a year. The Chair of the ARC may convene additional meetings, as they deem necessary;
 - a minimum of three members of the ARC will be present for the meeting to be deemed quorate;
 - ARC meetings will normally be attended by the Accountable Officer, the Head of Corporate Services, a representative of each of the Internal Auditors, and the External Auditors;
 - the ARC may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter;
 - the ARC 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;
 - the members of the ARC will meet with the Internal Auditors and, separately, the External Auditors, annually in closed meetings where the efficacy of the

processes, trust, co-operation and any other issues can be discussed and future action agreed; and

- the Board or Accountable Officer may ask the ARC to convene further meetings to discuss particular issues on which they want the Committee's advice.

Responsibilities

13. The ARC will advise the Board and Accountable Officer on:

- the strategic processes for risk, control and governance, including reviewing the risk profile and register and considering FSS's risk appetite, and advising on the practical effectiveness of the governance framework;
- the governance statement;
- the accounting policies, the annual report and accounts of the organisation, including the judgements used in the producing the accounts, the adequacy of disclosures, 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 effectiveness of the design and operation of financial systems and levels of compliance with controls;
- the planned activity and results of both internal and external audit;
- the adequacy of management response to issues identified by audit activity, including external audit's management letter/report;
- the resourcing and effectiveness of the internal control environment;
- assurances relating to the corporate governance requirements for the organisation;
- (*where appropriate*) proposals for tendering for internal audit services; and
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.

14. The ARC will work with FSS's Senior Management Team to ensure that the Board can be confident that risk management processes, content, mitigating and recovery actions are appropriate and correctly resourced.

15. The ARC will also periodically review its own effectiveness, including performance, constitution and terms of reference, and report the results of that review to the Board and Accountable Officer, recommending any changes it considers necessary.

Information Requirements

16. For each meeting the ARC will be provided with:

- a report summarising any significant changes to the organisation's Corporate Risk Register;
- a progress report from the Internal Auditors summarising:
 - a. work performed (and a comparison with work planned);
 - b. key issues emerging from Internal Audit work;
 - c. management response to audit recommendations, including action in response to issues identified and agreed and follow up report on implementation of recommendations;
 - d. significant changes to the audit plan;
 - e. any resourcing issues affecting the delivery of Internal Audit objectives;
- a progress report from the External Audit representative summarising work done and emerging findings.

17. As and when appropriate the Committee will also be provided with:

- the risk management strategy;
- management assurance reports, and report on the management of major health and safety incidents, 'near misses' and lessons learned;
- external assurance and compliance reports in relation to FSS's activities;
- proposals for the procurement of the Internal Audit services;
- the Internal Audit Strategy and annual plans;
- the Heads of Internal Audit's Annual Opinion and Report;
- customer satisfaction reports on the Internal Audit function;
- a summary of findings of every Internal Audit report;
- 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/report;
- a report on any proposals to tender for audit.

18. The above lists are minimum requirements for the inputs which should be provided to the ARC. In some cases more may be provided.