

New 2013 edition of HM Treasury's Audit and Risk Assurance Committee Handbook

In April 2013 HM Treasury published an updated Audit and Risk Assurance Committee (ARAC) Handbook (the Handbook), replacing the 2007 Audit Committee Handbook.

This fact sheet signposts the main developments in the new handbook. ARAC members and ARAC secretaries will, of course, need to ensure that they are familiar with all the requirements of the Handbook, and that they operate in accordance with them.

Key features of the 2013 Handbook

The Handbook emphasises the crucial role ARACs play in the effective governance of central government departments and their arm's-length bodies. It sets out that ARACs "...need to act as the conscience of the organisation and to provide insight and strong constructive challenge where required..."

The fundamentals of effective ARAC operation have not changed and the Handbook remains structured around five key principles of good practice, supported by guidance. Updates reflect the increasing significance of good risk management and the control environment, and the Board's associated assurance needs, in the effective governance of central government departments, their arm's-length bodies and departmental groups. Recent developments in internal audit and assurance are also reflected.

A change in name to "Audit and Risk Assurance Committee" highlights the committee's important role in relation to risk assurance.

Revisions bring the Handbook into line with Corporate Governance in central government departments: Code of good practice 2011 ("the Code"). The Code sets the high level requirements for the role and function of the ARAC (see diagram) including that ARACs should be established and function in accordance with the Handbook.

Which bodies does it apply to?

The Handbook continues to apply to all central government bodies: departments, executive agencies, NDPBs and other arm's-length bodies.

The "comply or explain" principle applies. Bodies should report annually on the work of the ARAC in discharging its responsibilities, including explaining any significant non-compliance with the Handbook, in the annual Governance Statement.

The five good practice principles

Principle 1: Membership, independence, objectivity and understanding.

The Audit and Risk Assurance Committee should be independent and objective; in addition, each member should have a good understanding of the objectives and priorities of the organisation and of their role as an Audit and Risk Assurance Committee member.

Key Handbook updates

- Now specifies a minimum of three members, all non-executive. At least two, including the ARAC Chair, should be non-executive board members. Cabinet Office guidance on maximum length of appointment is noted (fixed three year term, renewable for up to three years).
- Highlights the need for effective communication between ARACs to support the departmental Governance Statement and recognises the potential benefit of joint ARACs and/or cross-over membership between ARACs within a departmental group.
- Recommends Chair bilaterals with key attendees (e.g. Accounting Officer, Finance Director, Head of Internal Audit and the External Auditor). The departmental ARAC Chair should also adopt this approach for key components in the departmental group.
- All members should understand training requirements and how it will be provided.

Role of the Audit and Risk Assurance Committee



Principle 2: Skills

The Audit and Risk Assurance Committee should corporately own an appropriate skills mix to allow it to carry out its overall function.

Key Handbook updates

- Requires that at least one member should have the skills and experience to “competently analyse the financial statements and understand good financial management discipline.”
- Emphasises the need for members to continue to develop their skills and knowledge and to be able to work collaboratively. Guidance is now provided on the wider skills the ARAC may need.
- The Chair should ensure that all members have an appropriate programme of engagement with the organisation to help build sufficient understanding.

Principles 3 & 4: Role and Scope

The Audit and Risk Assurance Committee 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.

The scope of the Audit and Risk Assurance Committee’s work should be defined in its terms of reference, and encompass all the assurance needs of the Board and Accounting Officer. Within this, the Audit and Risk Assurance Committee should have particular engagement with the work of internal audit, risk management, the External Auditor, and financial management and reporting issues.

Key Handbook updates

- Highlights the value that ARACs can bring in helping Accounting Officers and Boards establish optimal assurance arrangements.

- This section now includes significantly updated and extended guidance aimed at helping ARACs more effectively fulfil their role and increasingly add value to their organisations.
- Updated principles clarify the ARAC’s role and the scope of its work regarding assurance on governance, risk management, the control environment and the integrity of the annual report and accounts.
- Emphasises the need for organisations to have an effective risk management framework and a risk based approach to assurance, making best use of finite resources. Gives revised guidance on the key elements to be considered in formulating an organisation’s assurance needs.
- Emphasises the need to obtain assurance on risks across the departmental group, and from outsourced or shared service providers, when considering the organisation’s risks and control environment. Doing this supports effective and timely action and enables key issues to feed into the annual Governance Statement.
- Updates emphasise the need for the ARAC to consider financial management issues. The Handbook also now recommends that ARACs consider key accounting policies, estimates and judgements, if possible before the start of the financial year. ARACs should also consider the clarity, completeness and context of disclosures in the year-end financial statements.
- Emphasises the non-executive nature of the ARAC and the need for ARACs to balance their coverage of corporate governance, risk management, control and financial reporting issues.
- Notes that the ARAC’s terms of reference should be publicly available and the schedule of its agreed delegations from the Board should be documented in the board operating framework.

Principle 5: Communication and reporting

The Audit and Risk Assurance Committee should ensure that it has effective communication with all key stakeholders, for example, the Board, the Group Chief Internal Auditor, Head of Internal Audit, the External Auditor, the Risk Manager and other relevant assurance providers.

Key Handbook updates

- Emphasises the importance of effective relationships with stakeholders and that communications and the reporting of the effectiveness of governance, risk management and control need to recognise the departmental group perspective, taking into account risks across organisational boundaries.

Handbook Annexes

The new Handbook, like the old one, has seven annexes with supporting material and good practice guidance. Updates have been made to them, reflecting developments in good practice. The annexes cover the Chair’s role, committee support, a model letter of appointment, example terms of reference, an example core work programme, key questions for a committee to ask and a competency framework.

Further Guidance

NAO offers facilitated workshops to ARACs of government bodies who wish to review their effectiveness. Please get in touch with your usual NAO team if you would like to discuss how we can help you.

Links to the guidance referred to in this fact sheet are:

HM Treasury: Audit and Risk Assurance Committee Handbook, www.hm-treasury.gov.uk/d/audit_and_risk_assurance_committee_handbook.pdf

For further queries, contact your NAO team or our Financial Management Theme: Z5-FMGP@nao.gsi.gov.uk