

Audit and risk management committee

1 Terms of reference

The audit and risk management committee will:

- Report to and advise the Young People's Learning Agency (YPLA) board and chief executive on the adequacy and effectiveness of the operation of the system of internal control within the YPLA. This also includes controls for securing economy, efficiency and effectiveness within providers funded by the YPLA board and the application of money paid to these providers in accordance with the purposes for which it was allocated
- Receive ad hoc items e.g. NAO value for money studies and Office of Government Commerce (OGC) reports

Performance and risk

- To receive quarterly reports on finance, performance, delivery and risk against which financial, delivery and organisational performance is proactively monitored. This includes the management of risk. From this to advise the YPLA board and chief executive on:
 1. The adequacy of risk management operating throughout the YPLA
 2. Issues relating to financial and organisational performance, the delivery of business goals and the management of risk.

Internal audit

- Advise the YPLA board and chief executive on the:
 1. scope and objectives of the work of internal audit
 2. head of internal audit's annual assurance statement
 3. adequacy of management responses to issues identified by internal audit activities
 4. implementation of recommendations
 5. the statement of internal control
- Consider and advise the YPLA board and chief executive on the needs assessment and strategic plans for internal audit
- Receive and approve the annual plans for internal audit
- Establish, in conjunction with the director of finance, relevant performance measures and indicators for internal audit and monitor the work of the function through these measures and indicators

- Receive reports concerning financial investigations via the chair of audit and risk management committee

External assurance

- Advise the YPLA board and chief executive on the:
 1. scope and objectives of the work of external assurance arrangements
 2. annual report on external assurance
- Receive and approve the annual plans for external assurance

Financial management and control

- Review standing orders and standing financial instructions annually and approve changes in accounting policies
- Receive and advise the YPLA board on the annual accounts for the YPLA
- Advise the YPLA board and chief executive on control issues included in the NAO's reports.

2 Membership

The audit and risk management committee should have at least six members of whom three should be members of the YPLA board, one of who will be the chair of the committee. Independent members may be appointed by the chair of the YPLA board in consultation with the chair of the audit and risk management committee.

Others who should normally be invited to attend audit and risk management committee meetings will include:

- An observer from the National Audit Office (NAO); and
- An observer from the department for education.

The YPLA chief executive is strongly encouraged to attend committee meetings when necessary.

3 Meetings

The committee should meet **four** times a year and should report formally to the YPLA board once a year. The chair of the audit and risk management committee should meet regularly with the chair of the YPLA board and the chief executive of the YPLA. Minutes of audit and risk management committee meetings shall be presented to the YPLA board at the next appropriate board meeting.

The chair of the audit and risk management committee may have private sessions with the head of internal audit, head of assurance and external audit and representatives from the NAO at his/her or their request.

4 Regular agenda items:

Standing items will include:

- To receive, question and accept the internal audit quarterly report
- To receive, question and accept the external assurance quarterly report
- To receive and comment on minutes of the executive management board in relation to risk management and the risk management quarterly report.

At other times of the year, items might include:

- To advise on systems for risk assurance and management
- To advise on the chief executive's statement of internal control
- To receive, question and accept the head of internal audit's annual report
- To receive, question and accept the head of assurance and external audit's annual assurance report
- To receive and question draft and accept final accounts
- To receive, question and accept NAO reports.

5 Meeting quoracy

Audit and risk management committee meetings will be considered quorate if three or more members are present, one of who is a member of the YPLA board.

6 Minutes of the meeting

The minutes shall be drafted by the committee clerk and distributed to members once approved by the chair. The minutes of all meetings will also be distributed to the next appropriate YPLA board meeting.

YOUNG PEOPLE'S LEARNING AGENCY Internal Audit Charter

1 Introduction

- 1.1 The Young People's Learning Agency (YPLA) is required to establish and maintain arrangements for internal audit in accordance with HM Treasury's *Government Internal Audit Standards* (GIAS).
- 1.2 Internal audit is a team within the finance directorate, itself within the finance, funding and corporate services group. The head of internal audit reports directly to the chief executive, has free and unfettered access to the chair of the audit and risk management committee and will attend meetings of the audit and risk management committee.
- 1.3 The chief executive, as the YPLA's accounting officer, is required to provide the Department for Education (DfE) with a signed annual statement of internal control regarding the effectiveness of systems of internal control in operation within the YPLA, for inclusion in the YPLA's annual report and financial statements. The YPLA's chief executive requires the head of internal audit to advise him on this statement.
- 1.4 *The Corporate Governance in Central Government Departments: Code of Good Practice*, sets out the principle that the YPLA's board should ensure that effective arrangements are in place to provide assurance on risk management, governance and internal control; and that the board should be advised independently by an audit committee and an internal audit service. The YPLA board will set up an audit committee chaired by one of its independent non-executive members to provide independent advice. The YPLA board is expected to assure itself of the effectiveness of the internal control and risk management systems. The *Audit Committee Handbook* gives further guidance on the reporting relationship between internal audit and the audit committee and Accounting Officer.
- 1.5 The audit and risk management committee is responsible for advising the YPLA board and the chief executive on among other issues, internal audit.
- 1.6 Final approval of the internal audit charter resides with the YPLA board. Any amendments to the charter must be agreed by the YPLA board.

2 Nature of Assurance

- 2.1 Internal auditing is an independent, objective assurance and consulting activity designed to add value and improve YPLA operations. It helps the YPLA accomplish its objectives by bringing a systematic,

disciplined approach to evaluate and improve the effectiveness of risk management, control, and governance processes.

- 2.2 Internal audit promotes continuous improvement of internal control systems as a service to the accounting officer. Internal audit is part of the YPLA and as such it is most effective when it works in partnership with colleagues throughout the organisation. Its purpose is not to find fault with the work of colleagues, but to work together to ensure that risks are managed effectively and an appropriate balanced level of control is in place to facilitate the efficient achievement of objectives.

3. Provision of Third Party Internal Audit Assurance

- 3.1 Where there is a shared service agreement between the Skills Funding Agency and the YPLA, the YPLA is responsible for ensuring that appropriate systems of governance, risk management and internal control operate within the services covered by the agreement.
- 3.2 Assurance will be provided over this by the shared services being subject to a level and frequency of internal audit coverage, to be provided by the YPLA's head of internal audit, agreed with the chief internal auditor of the Skills Funding Agency.
- 3.3 The outcome of the internal audit work over these services, including the formal reports will be fully and openly shared with the Skills Funding Agency.

4 Objectives

- 4.1 The provision of assurance services is the primary role for internal audit and this role requires the internal auditor to provide an independent opinion based on an objective assessment of the framework of governance, risk management and control. The head of internal audit provides assurance through a professional opinion on the adequacy of the internal control system and the extent that it can be relied upon. This opinion is based on the examination and evaluation of live systems, developing systems and risk management processes.
- 4.2 Internal audit assists managers throughout the YPLA by evaluating and reporting on the systems of internal control for which they are responsible. The quality of financial and operational data impacts the ability of internal audit to rely on it and thereby to provide accurate assurance. Internal audit actively consults with managers and adds value by facilitating improvements to systems of internal control, optimising risk management processes and encouraging the adoption of best practices.

5 Independence

- 5.1 Internal audit must be independent of the activities that it audits to enable auditors to provide impartial and unbiased professional opinions

and recommendations. Internal audit should be free to plan, undertake and report on its work, as the head of internal audit deems appropriate, in consultation with relevant managers, the chief executive and the audit and risk management committee.

- 5.2 Line managers are fully responsible for the quality of internal control within their directorate. They should ensure that appropriate and adequate control and risk management arrangements exist without depending on internal audit activity. However, internal audit will provide advice and assistance to managers in fulfilling these responsibilities.
- 5.3 Internal audit will provide advice and recommendations on live or developing systems. The nature and scope of the advice should aim to improve governance, risk management and control and the evidence gathered should contribute to the head of internal audit's opinion. Line managers are accountable for accepting internal audit advice and implementing their recommendations. The provision of such advice should not prejudice internal audit's right to evaluate the established systems and controls at a later date. Internal audit does not have any executive responsibilities.

6 Right of Access

- 6.1 To undertake their work internal auditors have unrestricted access to all the YPLA's personnel, premises, documents, records (including electronic data), information and assets. Internal auditors are authorised to obtain the information and explanations they consider necessary from any employees or agents of the YPLA to fulfil their objectives and responsibilities. Where and whenever possible internal audit will seek to agree the scope, objectives and timing of their assignments with the relevant managers.
- 6.2 Internal auditors have rights of access to any data required for their work that is owned by the YPLA, but is processed or held elsewhere by third parties. Internal auditors have authority to access all computer data as part of their work, including that registered under the Data Protection Act.
- 6.3 The head of internal audit has the right of direct access to the chief executive and the chair of the audit and risk management committee.

7 Internal Control

- 7.1 Internal control consists of the following five interrelated components:
- *Control Environment* - includes integrity, ethical values, competence of staff, management's philosophy and operating style, organisational structure, assignment of authority and responsibility and HR policies and practices;

- *Risk Assessment* - is the identification and analysis of relevant risks to the achievement of the objectives, forming a basis for determining how the risk should be managed;
- *Control Activities* - the policies and procedures that help ensure that management's directives are carried out, including those related to the prevention or detection of errors or fraud. This includes a range of activities such as approvals, authorisation, reconciliations, reviews of operating performance, security of assets and segregation of duties;
- *Information and Communication* - pertinent information must be identified, captured and communicated in a form and timeframe that allows staff to carry out their responsibilities;
- *Monitoring* - the processes that assess the quality of internal control performance over time. This includes regular management and supervisory activities, and other actions personnel take in performing their duties. Internal control systems need to be monitored to ensure that they remain effective.

8 Scope of Internal Audit

- 8.1 The scope of internal audit includes the examination and evaluation of the adequacy and reliability of the YPLA's entire system of internal control. Internal audit is responsible for providing assurance across all activities including all operations, resources, services and responsibilities for other bodies.
- 8.2 The scope of internal audit includes reviewing, appraising and reporting on the controls established by management to:
- Establish and maintain effective governance processes;
 - Identify, assess and appropriately manage significant risks;
 - Establish and monitor the achievement of objectives;
 - Formulate policy, or provide policy advice, within the responsibilities of the YPLA;
 - Ensure the effectiveness and efficiency of operations;
 - Ensure compliance with laws, regulations and contracts;
 - Safeguard the YPLA's assets and manage fraud risk;
 - Ensure the integrity and reliability of financial and operational information.

Value for money

- 8.3 All managers are responsible for maintaining effective control by evaluating efficiency and continually seeking to achieve best value. The National Audit Office (NAO) has a role in reporting on economy

and efficiency over public bodies' use of public monies and helping to improve cost-effective delivery networks. Internal audit may assist managers by:

- Considering the extent that value for money is achieved when undertaking routine internal audit reviews;
- Routinely evaluating and reporting on the efficiency of operations;
- Highlighting any opportunities for savings to management;
- Promoting continuous improvement through audit work;
- Recommending and facilitating the introduction of best practices across the YPLA by undertaking cross organisational reviews;
- Specifically examining and evaluating, or participating in, value for money reviews where agreed as part of the audit and client agreement.

Policy and business change

- 8.4 Internal audit is most efficient when its advice is utilised to ensure that appropriate controls are incorporated at an early stage in the planning of policy or business changes. Managers are encouraged to consult internal audit at the start of such processes. Internal audit should be informed and consulted on plans for major or complex changes to YPLA systems of internal control. Internal audit will advise and comment on proposed changes and the controls to be incorporated in new and changed systems.

Fraud and irregularity

- 8.5 Responsibility for dealing with allegations of financial irregularity and conducting fraud investigations lies with the Internal Audit Investigation Unit (IAIU). The IAIU is a shared service of the Skills Funding Agency and will deliver the activity on behalf of the YPLA under a shared service agreement. The IAIU is responsible for the professional investigation of suspected fraud and all forms of other financial irregularities both internal to the YPLA and external, where directly funded by the YPLA.
- 8.6 All managers in the YPLA are responsible for the prevention and detection of fraud, corruption and other irregularities. Guidance on reporting allegations of financial irregularity regarding YPLA staff is outlined in the Whistleblowing Procedure. In essence, colleagues are asked to report their concerns to their line manager, director or HR team. Colleagues can also report their concerns directly to the chair of the audit and risk management committee. All allegations of financial irregularity by training providers should be brought to the attention of the IAIU. They should also ensure that any supporting documentation or other evidence is secured.
- 8.7 The head of internal audit may carry out other special investigations at

the request of the chief executive. Internal auditors when conducting audit assignments are alert to opportunities, such as control weaknesses, that could allow fraud. Once a fraud investigation is concluded, internal audit may undertake a review to determine whether controls should be strengthened.

9 Internal Audit Standards

- 9.1 Internal audit activity within the YPLA is delivered in accordance with the mandatory requirements of the GIAS comprising the Definition of Internal Auditing, the Code of Ethics and the International Standards for the Professional Practice of Internal Auditing (International Standards) issued by the global professional body, The Institute of Internal Auditors, supplemented by additional requirements for UK central government. It also takes into account other professional standards and best practices.
- 9.2 The head of internal audit is responsible for ensuring that internal audit resources are appropriate, sufficient and effectively deployed to achieve the approved plan. Internal auditors must be properly trained to fulfil their responsibilities. Internal auditors should perform their engagements with proficiency and due professional care based on knowledge, skills and other competencies. Internal auditors should obtain and record sufficient audit evidence to support their findings and recommendations.
- 9.3 Internal audit has a duty of confidentiality to YPLA's managers; in return internal auditors should expect managers to be open, frank and honest about any risks, concerns or problems that may exist.

10 Internal Audit Planning

- 10.1 The head of internal audit will establish risk-based plans to determine the priorities of the internal audit activity and for periodic planning purposes, consistent with the YPLA's goals. Internal audit's work is planned in order to establish priorities, achieve objectives and ensure the efficient and effective use of audit resources.
- 10.2 The head of internal audit will develop and maintain a strategy to meet the main purpose of the internal audit activity, advocate a systematic and prioritised review, outline the resources and skills required to meet the assurance needs of the accounting officer, YPLA board and the audit and risk management committee. The strategy will take into account the relative risk maturity of the YPLA.
- 10.3 The head of internal audit produces annual plans to assist with the implementation of this strategy. These plans are developed in consultation with YPLA directors and other senior managers.
- 10.4 The internal audit strategy and annual plans are subject to revisions

and approval by the chief executive on the advice of the audit and risk management committee. The budget and resources allocated to internal audit should be sufficient to ensure that these plans can be delivered. The plans should also include an element of contingency to allow internal audit to be responsive to changing risks and requests for assistance from managers.

10.5 Plans are prepared for each internal audit assignment and discussed with relevant line managers before the work is started. These plans include the:

- Scope and objectives of the assignment;
- Resources;
- Reporting arrangements;
- Target dates.

11 Head of Internal Audit

11.1 The appointment of the head of internal audit is the responsibility of the chief executive. The YPLA should ensure that the DfE is satisfied with the competence and qualifications of the head of internal audit. The head of internal audit must hold a full professional qualification either MIIA, Consultative Committee of Accountancy Bodies (CCAB) or equivalent professional membership.

11.2 Appointment or removal of internal audit staff is the responsibility of the head of internal audit, in line with YPLA's HR policies.

11.3 The head of internal audit is responsible for maintaining a professional audit staff with sufficient knowledge, skills and experience to carry out the plan. This should include sufficient professionally qualified staff either MIIA, CCAB or equivalent professional membership.

12 Internal Audit Reporting

12.1 The head of internal audit will provide to the accounting officer an opinion on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control, timed to support the statement of internal control. The head of internal audit will agree arrangements for interim reporting in the course of the year and produce an annual report that incorporates their opinion.

12.2 Internal audit reports all findings to appropriate managers. Significant issues are reported in writing. The reports include an opinion on the area reviewed and recommendations for improvement. Recommendations are prioritised.

12.3 Draft internal audit reports are provided to relevant line managers. They should respond promptly stating, for agreed recommendations, their proposed action, the manager responsible for implementation and

a date by which action will be completed. Final internal audit reports are issued to the relevant line manager, their director, the director of finance, NAO and the DfE head of internal audit.

- 12.4 The head of internal audit is responsible for monitoring and reporting on the extent of implementation of agreed improvement plans. The head of internal audit will report to directors, the chief executive and the audit and risk management committee, as appropriate, where significant improvements do not receive adequate attention. A rolling log of the follow up position on internal audit recommendations will be presented to the audit and risk management committee to facilitate their role in advising on the adequacy of management responses to issues identified by internal audit activities.

13 Co-operation

- 13.1 The head of internal audit should co-ordinate internal audit plans and activities with line managers, the NAO, DfE internal audit, Skills Funding Agency internal audit and other review agencies. This co-operation should ensure the most efficient use of the total resources devoted to audit and review. The head of internal audit will include in the internal audit strategy the approach to using other sources of internal and external assurance. Periodic plans will include any work associated with placing reliance upon such work.

- 13.2 Internal audit will share information and papers with the NAO and DfE internal audit.

- 13.3 Both the NAO and the DfE may review YPLA internal audit to determine the extent that they may rely on its work.

14 Quality of Service

- 14.1 The head of internal audit manages a quality assurance and improvement

programme that covers all aspects of the internal audit activity and includes both internal and external assessments. The aim of this programme is to ensure that the work of internal audit complies with the GIAS and achieves its objectives.

- 14.2 Internal audit takes the following action to provide a quality service:

- Adopts a flexible risk driven approach;
- Works in partnership with YPLA managers and staff to develop and maintain adequate and reliable systems of internal control;
- Continually seeks to improve the efficiency of its services in consultation with managers from across the YPLA;
- Regularly reviews its procedures to ensure that they remain appropriate;
- Implements a set of key performance indicators.

- 14.3 The internal audit quality assurance programme will include:
- Suitable guidance, support and review of all internal audit work;
 - Seeking responses from managers and directors on the quality of internal audit work;
 - External reviews to provide the chief executive and the audit and risk management committee with assurance on the quality of internal audit (at least once every five years);
 - The head of internal audit will investigate and respond personally in writing to all complaints about internal auditors or the service provided.