

Ms Marie Austin  
Clerk to the Assembly Audit Committee  
Room 254, Parliament Buildings  
Ballymiscaw  
Stormont  
BELFAST  
BT4 3XX

[by e-mail]

22 June 2021

Dear Marie

### **Whistleblowing Policy and ARC member removal**

I refer to the email request from your colleague, David McClure, dated 7 June 2021, requesting a copy of 1) the NIPSO whistleblowing policy and; 2) details of the process for the removal of a member from the NIPSO Audit and Risk Committee.

1. I attach at **Annex A** a copy of NIPSO's current Whistleblowing Policy. This was updated substantially in November 2020. You will note that the updated guidance adopts the term "Raising Concerns" rather than "Whistleblowing" – this is in line with the June 2020 NIAO good practice guidance: *"Raising Concerns: A Good Practice Guide for the Northern Ireland Public Sector"*<sup>1</sup>, from which NIPSO's updated guidance draws significantly.
2. Regarding the "process for removal of a member of the NIPSO Audit and Risk Committee" I quote below the following standard clauses in the NIPSO letter of appointment for either the chair or a member of NIPSO's Audit & Risk Committee (ARC):

You are not an employee. Accordingly nothing in this letter shall be construed as, or taken to create, a contract of employment between yourself and the Office.

#### **Notice**

Your appointment may be terminated by one months' notice in writing given by you to the Ombudsman, without prejudice to the revocation provision below, or on the Ombudsman giving you similar notice in writing.

#### **Revocation**

The Ombudsman may terminate your appointment as the Independent Chair/Member of the ARC without notice if:

- you fail without reasonable excuse to discharge your duties for a continuous period of three months;
- you are convicted of a criminal offence;
- a bankruptcy order is made against you, or you make a composition or arrangement with your creditors; and
- you are in the Ombudsman's opinion unable or unfit to carry out your duties.

<sup>1</sup> See: [HERE](#) (Ctrl+ Click to follow link)

In addition to these standard clauses, the Chair and members of the NIPSO ARC are also subject to, and, upon appointment, must make a declaration in respect of NIPSO's *Conflicts of Interests* policy. The latest version of this policy (October 2020) is attached at **Annex B** and the declaration contained therein is subject to annual re-validation, in keeping with the arrangements applying to NIPSO staff. In circumstances where an irreconcilable conflict of interests comes to light this can result in the termination of the particular individual's term of office.

I can confirm that since the establishment in 2016 of the first NIPSO Audit and Risk Committee (ARC), no chair or member of the NIPSO ARC has been removed from office.

On another related matter, concerning the recruitment process for NIPSO ARC members, in his evidence on 2 June Mr Curtin stated the following, as recorded in Hansard:

*Mr Curtin: "... It is regarded as dangerous practice, from a corporate governance point of view, that a member of an audit and risk committee be appointed without the involvement of the chair of that committee. That is from the Financial Reporting Council in London"*

For information I attach separately a copy of the source to which Mr Curtin was referring (*"Financial Reporting Council: Guidance on Audit Committees"* [September 2012]). The relevant reference within this document is at paragraph 2.4.

I trust that the Committee shall consider this response to be satisfactory.

Yours sincerely

A handwritten signature in cursive script, reading "Margaret Kelly". The signature is written in dark ink on a light-colored background.

**MARGARET KELLY**  
**Ombudsman**



**Policy on Raising Concerns**

<b>Vers. No:</b>	<b>Author:</b>	<b>Approved:</b>	<b>Issue Date:</b>	<b>Update reason:</b>	<b>Review Due:</b>
<b>1.0</b>	<b>John McGinnity</b>	<b>Marie Anderson</b>	<b>July 2017</b>		<b>July 2020</b>
<b>2.0</b>	<b>John McGinnity</b>	<b>Margaret Kelly</b>	<b>Nov 2020</b>	Scheduled review, including; retitling of policy; significant update linking to updated NIAO guidance and other developments; and re-issue from new Ombudsman	<b>Nov 2023</b>

**November 2020**

# POLICY ON RAISING CONCERNS

## 1. Introduction

- 1.1 The previous (Version 1.0) of this policy used the term “Whistleblowing”. In June 2020 the Northern Ireland Audit Office (NIAO) issued significantly revised guidance: “Raising Concerns: A Good Practice Guide for the Northern Ireland Public Sector”, available [here](#) (Ctrl + Click to follow link). It is strongly advised to read this comprehensive NIAO guidance in conjunction with this policy
- 1.2 In the NIAO document it is noted that the term “*Whistleblowing*” does not exist in law and the NIAO has chosen to adopt the preferred term “*Raising Concerns*”. In so doing they emphasise that “***Whistleblowing and raising a concern are the same thing***”. However, in light of this change in terminology, this NIPSO policy is now entitled “Policy on Raising Concerns”.
- 1.3 The aim of this policy is to address the action that needs to be taken if staff have concerns about unlawful conduct, a possible fraud, a danger to the public or the environment, or other serious malpractice at work. For the purposes of this Policy the term malpractice means a wrongdoing with regard to, for example, negligence, misconduct, incompetence, fraud and illegal or unethical practice.
- 1.4 Staff may be worried about raising such a concern and may think it best not to raise the issue. They may feel that raising the matter would be disloyal to colleagues, managers or to the Office and may decide to say nothing. Staff may be unsure if they have spoken to the right person and are not sure what to do next.
- 1.3 The purpose of this policy is to provide a framework where staff feel it is safe and acceptable to speak up. This will enable staff to raise any concern at an early stage and in the correct manner. The operation of this policy has been agreed by the Ombudsman, SMT and the NIPSO Audit and Risk Committee and it applies to all who work for the Office including external contractors and agency staff. A number of the key principles supporting the operation of this policy are set out at **Annex 1**.
- 1.4 The Public Interest Disclosure (Northern Ireland) Order 1998<sup>2</sup> (the Order) provides statutory protection against dismissal or victimisation where a worker raises a genuine concern in good faith. The Order directs employees to raise concerns internally in the

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<sup>2</sup> The Public Interest Disclosure (Northern Ireland) Order 1998 (which amended the Employment Rights Order (Northern Ireland) 1996) and the Employment Act (Northern Ireland) 2016, section 7. Further guidance on the application of this legislation is available at: <https://www.economy-ni.gov.uk/sites/default/files/publications/economy/public-interest-disclosure-guidance.pdf>

first instance but will also protect employees where they make external disclosures in a range of defined circumstances. If an employee chooses to disclose information in a way that is not covered by the Order, they will lose its protection.

1.5 To qualify as a concern raised under the Order it must be shown that one or more of the following is likely to occur:

- a crime;
- breach of a legal obligation;
- miscarriage of justice;
- danger to health and safety;
- damage to the environment.

Concerns about an attempt to cover up any of the above can also be raised.

1.6 If staff have a relevant concern, please let your line manager know, setting out which of the above-listed categories you are reporting on. A complaint about your employment or how you have been treated should be made as a grievance (complaint) rather than a under this policy. If your concern is about possible fraud, you should refer to NIPSO's Anti-Fraud Policy and Fraud Response Plan.

### **Distinction between Whistleblowing Concerns and Grievance Complaints**

1.7 A simple way to distinguish between a concern under this policy and a grievance complaint is to consider the nature of the concern:

- Does the concern refer to 'others' e.g. the organisation, other staff, clients or the wider public? If so, it falls under this raising concerns policy.
- Does the concern refer to the individual ('self') e.g. a personal grievance about terms of employment, pay or unfair treatment? If so, it is a grievance complaint.

1.8 Generally, an individual raising a concern has no self interest in the issue being raised. However, this may not always be clear cut. If in doubt, you can seek advice from Protect (formerly Public Concern at Work) on 020 3117 2520. This guidance only applies to whistleblowing concerns.

1.9 Staff are also advised to refer to the guidance referred to a para 1.1 above: *"Raising Concerns: A Good Practice Guide for the Northern Ireland Public Sector"* – in particular page 13 thereof.

1.10 In general, if you have a concern, speak to your line manager first.

## **2. NIPSO's Assurances to you**

### **Your safety**

- 2.1 The Ombudsman is committed to making this policy on raising concerns effective. If staff raise a genuine concern under this policy, they are not at risk of suffering any form of retribution as a result. Provided they are acting in good faith, it does not matter if the concerns prove to be mistaken. Of course, this assurance does not extend to an individual who maliciously raises a matter they know to be untrue. The Ombudsman will seek to protect individuals from false, malicious or vexatious allegations. In the event of such allegations being made, they will be dealt with under the Disciplinary Procedure.

### **Confidentiality and Anonymity**

- 2.2 The Ombudsman will not tolerate harassment or victimisation of anyone who raises a genuine concern. In light of these assurances, it is important that the concern is openly raised. However, it is recognised that there may be circumstances when staff would prefer to speak to someone in confidence first. If this is the case, please say so at the outset. Individuals may wish to seek anonymity. There may be times when a complaint cannot be resolved without revealing the identity of the individual. If anonymity is refused, reasons will be given in writing for this decision.
- 2.3 The following will be considered when exercising discretion on any request for anonymity:
- the seriousness of the issues raised;
  - the credibility of the concern;
  - the likelihood of confirming the allegation from attributable sources; and
  - the right for a person accused of wrong doing to respond.

## **3. Raising a Concern**

- 3.1 Although no evidence to support an allegation of malpractice is needed before raising a concern, it is important that the individual explains fully the information and circumstances giving rise to the concern. It is also important to:
- **act promptly** - don't wait for proof;
  - **record and identify key details and dates;**
  - **report the concern as detailed below** to your line manager (or contract manager);
  - **do not investigate the concern yourself**, this is a matter for the Office; and
  - **avoid approaching or accusing the relevant person directly.**

### **Step One**

Where there is a concern about malpractice, it is important to raise it first with your line manager or, if they are unavailable, with their immediate line manager or contract manager. This should be done in writing where possible.

### **Step Two**

If, for whatever reason, it is not appropriate to raise it with your line manager the matter should be raised in person or in writing with one of the following:

- **a Director**, or, if inappropriate to raise it at that level, with:
- **the Deputy Ombudsman**, or, if inappropriate to raise it at that level, then with:
- **the Ombudsman**

### **Step Three**

Having followed steps 1 and 2 if you deem it inappropriate to raise the matter at any level within NIPSO, and you still have concerns or you consider that the matter is so serious that you cannot discuss your concerns with anyone within the Office, you should raise the matter directly with the **Chair of the NIPSO Audit and Risk Committee** or with our contracted-out **Head of Internal Audit** [contact details for either are available on request at any time from the Director of Finance & Corporate Services].

As a further alternative, you may raise your concerns with the Comptroller & Auditor General at:

NIAO, 106 University St, Belfast BT7 1EU

You may also contact NIAO either by email to:

[raisingconcerns@niauditoffice.gov.uk](mailto:raisingconcerns@niauditoffice.gov.uk)

or by telephone to: **(028) 9025 1062 or (028) 9025 1000.**

### **Actions in Conflict with NIPSO Code of Conduct**

3.2. If you believe that you are being required to act in a way which conflicts with the core values and standards set out in the NIPSO Code of Conduct or you have become aware of actions of others which you believe conflict with this Code or could damage the Office's reputation, you should raise the matter with the **Deputy Ombudsman**.

## **4. Independent advice**

4.1 The independent charity **Protect** (formerly Public Concern at Work) can be contacted

on 020 3117 2520, or by email at [whistle@protect-advice.org.uk](mailto:whistle@protect-advice.org.uk). They provide independent advice and its lawyers can talk through your options and help you raise a concern about malpractice at work.

## **5. External Disclosures**

- 5.1 While this policy aims to provide the reassurance needed to raise concerns internally, the Ombudsman recognises that there may be circumstances where individuals can properly report a concern to an outside body. This may be to the Chair of the ARC, the head of Internal Audit or to the Northern Ireland Audit Office where concerns relate to the proper conduct of public business, value for money, or fraud and corruption. It may also be the Health and Safety Executive for concerns about the health and safety of individuals at work or of members of the public in connection with your work. A full list of those to whom you can make external disclosures and their remit can be found at Appendix One at [this link](#)

## **6. Monitoring and Oversight**

- 6.1 The Ombudsman is responsible for this policy and SMT review it in the event of any wider policy or guidance developments in the field of whistleblowing and in any event at intervals of no more than three years. The Director of Finance and Corporate Services will monitor the operation of the policy.

## **7. Enquiries about this Policy**

- 7.1 For questions or comments on this policy, please contact the Director of Finance & Corporate Services.



**Margaret Kelly**

**OMBUDSMAN**

**November 2020**



**Raising a concern – key principles:**

- Genuine concerns will not be ignored; all will be evaluated.
- Receipt of a concern will be formally acknowledged
- The individual will be informed who will be investigating his/her concern.
- The individual will be formally notified if his/her concern does not fall under this raising concerns policy and if appropriate will be directed towards an alternative course of action e.g. grievance, complaint, bullying etc
- If the concern is submitted in writing, the individual will be offered the opportunity of a meeting to fully discuss the issue.
- Confidentiality will be respected at all times and disclosure will only be made when required to do so by law.
- The Office will aim to respond to the concern raised within 20 working days. This will be dependent upon the nature, scope and potential complexity of the issue(s) raised. If this timescale is not possible, the individual will be informed.



Northern Ireland  
**Public Services**  
Ombudsman

**Policy on Handling Conflicts of Interest**

<b>Vers. No:</b>	<b>Author:</b>	<b>Approver:</b>	<b>Issue Date:</b>	<b>Update reason:</b>	<b>Review Due:</b>
1.0	John McGinnity	Marie Anderson	Jan 2017		July 2020
1.1	John McGinnity	Marie Anderson	July 2017	Clarification added on submission of declarations	July 2020
1.2	John McGinnity	Margaret Kelly	Oct 2020	Reviewed, with minor updates from Feb 2017 version, including updated NIPSO statement of values. and re-issued from new Ombudsman.	Oct 2022

October 2020

## **Introduction**

This policy has been developed by the Northern Ireland Public Services Ombudsman (the Ombudsman) to provide guidance on circumstances where any actual or perceived conflict of interest exists in relation to any investigation or adjudication function of the Ombudsman or in relation to any function of the Ombudsman. The Ombudsman recognises the importance of having a policy on Conflicts of Interest and is committed to addressing issues of conflict of interest.

The Ombudsman considers it important to remind all staff and other appointees that this policy is underpinned by the Values of her Office which are:

***Fairness***

***Impartiality***

***Openness***

***Excellence***

***Respect***

***Integrity***

The policy applies to the Ombudsman her staff and all other appointees including the independent members of the NIPSO Audit and Risk Committee. The policy will be published on the Ombudsman's website and reviewed regularly by the Senior Management Team (SMT). The SMT will ensure that all staff receive training on this policy as part of their induction and/or refresher training as appropriate.

## **The Purpose of this Policy**

There is clearly a public interest in protecting the integrity of public decisions and in managing the private interest of individual officers of a statutory office that provides a public service such as the Ombudsman's office.

This policy has a dual purpose

1. To clearly set out the Ombudsman's commitment and that of her staff and other appointees to the effective management of Conflicts of Interest;
2. To provide a framework for dealing with those conflicts in a proportionate, consistent and open and transparent manner.

It is difficult for a policy to cover every circumstance and it is important to retain some flexibility to allow for individual cases where an objective judgment can be made by the Ombudsman and the Senior Management Team (SMT).

## **What is a Conflict of Interest?**

In March 2015 the NIAO published a Good Practice Guide on Conflicts of Interest (see link [here](#)). That guide defines a conflict of interest as follows:

***‘A conflict of interest involves a conflict between the public duty and the private interest of a public official in which the official’s private-capacity interest could improperly influence the performance of his/her official duties and responsibilities.’***

A conflict of interest can also be **perceived**.

A perceived conflict of interest exists where it could be perceived, or appears, that private-capacity interests could improperly influence the decision or performance of the Ombudsman or a member of her staff. While such a conflict may pose no actual risk to any function of the office, it requires proper management in order to minimise the risk of reputational damage. A perception of a conflict of interest can be just as significant as an actual conflict of interest. The key issue is whether there is a risk that a fair-minded outside observer, acting reasonably, would conclude that there is a real possibility of bias.

### **Whose interest?**

The interest in question need not be that of the Ombudsman, her staff or other appointees. It can also include the interests of close relatives<sup>3</sup>, friends or associates who have the potential to influence the individual’s behaviour.

The NIAO guide describes a ‘friend or associate’ as someone with whom the individual has a longstanding and/or close relationship, socialises with regularly or has had dealings with which may create a conflict of interest.

### **Is a conflict of interest always wrong?**

In many instances a conflict of interest will be neither wrong nor unethical. It is important that the conflict is identified early and any risks are managed appropriately. In general the best way of dealing with conflicts of interest is to prevent them from arising in the first place. Where conflicts occur, it is important to declare them and then handle them appropriately.

### **How do I recognise a conflict of interest?**

A checklist to assist in identifying a conflict of interest is attached at **Appendix 1** to this policy. This checklist was developed by the NIAO. If in doubt, staff should seek the advice of their line manager and/or the Chair of the Audit and Risk Committee. This attached checklist is to be used in considering whether a conflict or perceived conflict of interest has arisen or may arise.

### **Managing the Conflict**

Some conflicts of interest are relatively easy to identify and manage. Where a conflict arises, the

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<sup>3</sup> The NIAO guide describes a ‘closerelative’ as the individual’s spouse or partner, children (adult and minor), parent, brother, sister, in-laws and the personal partners of any of these. For other relatives it is dependent upon the closeness of the relationship and degree to which the decisions or activity of the public entity could directly or significantly affect them.

Ombudsman or relevant staff member/appointee is prohibited from:

- involvement in any decision that could lead to financial gain or benefit to the individual, close relatives, friends or associates;
- involvement in any decision that could lead to the appointment of a close relative, friend or associate;
- involvement in, or influencing, the award of a contract or grant where the individual is connected to any of the tenderers or applicants;
- carrying out business on behalf of the Office with their own or a close relative's company;
- owning shares in, or working for, organisations that have dealings with the Ombudsman or Office; and
- Accepting gifts or hospitality etc which could create or appear to create an undue obligation or to interfere or appear to interfere with the individual's objective judgement when undertaking his/her duties

### **Declaration of Interest**

The Ombudsman, her staff and other appointees must declare any personal or business interests which may conflict with their official duties and responsibilities. Any such conflicts must be identified at an early stage so that appropriate action can be taken. The Ombudsman, her staff or other appointees must not participate in the consideration of any matter in which they have a financial or non-financial interest. A register of the internal and external interests of the Ombudsman, her staff and the independent chair and members of the NIPSO Audit and Risk Committee will be kept for that purpose. The register shall be updated at the end of each calendar year and is available for public inspection. The Ombudsman, members of staff and all other appointees make an initial declaration of interest when they join the Office by completing a standard form, as attached to this policy at **Appendix 2**.

Completed declarations should be submitted to the Director of Finance and Corporate Services (DOFCS), who will ensure recording and inclusion in NIPSO's register of interests. Where applicable the DOFCS will notify others, including your line manager, the Ombudsman and/or the Deputy Ombudsman where it is appropriate to do.

Any declarations made will cease to be available for public inspection once the individual concerned leaves the Office.

The following identifies the key interests that the Ombudsman her staff members and other appointees are required to declare in the Register (the list is not exhaustive):

- (a) Bodies of which the Ombudsman, staff member or appointee is or was (within the previous four years) a paid employee.
- (b) Non-profit making organisations (e.g. charities, housing associations) of which the Ombudsman, staff member or appointee is a trustee, or on the committee of management or other controlling body and which might have significant official dealings with the individual or the Ombudsman collectively.
- (c) Any land or property in which the Ombudsman, staff member or appointee has an interest and

which is relevant to the Ombudsman's functions.

- (d) Any company or organisation in which the Ombudsman, staff member or appointee (or any close relative\* thereof):
- (i) has/have a controlling interest, or
  - (ii) is/are a director or partner, or
  - (iii) has/have shares or securities with a nominal value of more than £25,000 or one hundredth of the total issued share capital, and which could be involved in the supply of goods or services to, or have business dealings with, the Office.
- e) Any employment, appointment or other business relationship with a body which is within the jurisdiction of the Ombudsman.

\* *Close Relative* is as defined on page 2 of this policy.

Individual declaration of interest forms are compiled into a 'Register of Interests'. The register enhances transparency within the Office and is a useful tool to help identify conflicts at an early stage and take the necessary steps to manage them. The register should be kept up-to-date through the annual declaration of interests process described above. The Ombudsman, her staff and other appointees are required to declare any changes to their interests as and when they arise.

A Register of Interests should record the following information for each conflict of interest:

- the individual concerned;
- the circumstances involved;
- an assessment of the situation;
- how the matter was resolved or how the risk was reduced/eliminated; and
- any action taken by the organisation.

In addition to the annual declaration of interests and notification of changes as they arise, conflicts of interest should also be declared at the beginning of each Audit and Risk Committee and SMT meeting and at any other point should they arise in discussion.

A declaration of interests form should also be completed as part of the appointment process in the Office. This allows any conflict to be explored to determine how it might affect the individual's ability to contribute effectively and impartially to their proposed role and how the conflict may be handled following appointment. If an interview panel regards a conflict as serious, the individual's application may be rejected.

### **Awareness of potential conflicts of interest**

When a conflict of interest has been identified, the Ombudsman must carefully consider what action, if any, needs to be taken to adequately avoid or mitigate the associated risks. If the conflict relates to the Ombudsman the matter should be considered by another Ombudsman to consider appropriate action, with an update provided to the Chair of the Audit and Risk Committee. The seriousness of the conflict, as well as the range of options available to handle, lessen or monitor it, must be assessed. Policies and procedures cannot cover every type of situation which may occur and judgement needs to be exercised in individual cases. This is particularly important where the circumstances giving rise to the conflict of interest are novel or rare, or where the degree of seriousness needs to be taken into consideration.

While individuals are best placed to identify whether they have a conflict of interest, and are responsible for declaring it, public bodies should not rely solely on individuals. Line managers and SMT should always be alert for situations that may create a conflict, particularly one that has not yet been declared.

### **Gifts and Hospitality**

The Ombudsman and all of her staff must not accept hospitality or any material gift which might prejudice or conflict with their duties or responsibilities as set out in the Public Services Ombudsman Act (Northern Ireland) 2016, or this policy. This is further detailed in NIPSO's separate "Gifts and Hospitality Policy".

### **Related Party Transactions**

As the Ombudsman's Office follows generally accepted accounting practice to the extent that it is meaningful and appropriate in the public sector context (as interpreted by the Financial Reporting Manual (FReM)), the Ombudsman and her staff must facilitate compliance with the need under International Accounting Statement (IAS) 24 for material transactions with related parties to be disclosed in financial statements. 'Related parties' in IAS 24 include a person or a close member of that person's family as interpreted under the relevant section of HM Treasury's *Financial Reporting Manual (FReM)*.

### **Failure to Comply**

A failure to comply with this policy by any member of staff may be a disciplinary offence.

A handwritten signature in black ink that reads "Margaret Kelly". The signature is written in a cursive, flowing style.

**Margaret Kelly**  
**OMBUDSMAN**  
**28 October 2020**

**Figure 1: Checklist for public officials and Board members**

**Do you think you have an actual, perceived or potential conflict of interest? The following questions may help when assessing an issue being considered and the situation in which you are involved<sup>4</sup>.**



- ☐ Would I or anyone associated with me benefit from, or be detrimentally affected by, my proposed decision or action?
- ☐ Could there be benefits for me in the future that could cast doubt on my objectivity?
- ☐ Do I have a current or previous personal, professional or financial relationship or association of any significance with an interested party?
- ☐ Would my reputation or that of a relative, friend or associate stand to be enhanced or damaged because of the proposed decision or action?
- ☐ Do I or a relative, friend or associate stand to gain or lose financially in some covert or unexpected way?
- ☐ Do I hold any personal or professional views or biases that may lead others to reasonably conclude that I am not an appropriate person to deal with the matter?
- ☐ Have I contributed in a private capacity in any way to the matter my organisation is dealing with?
- ☐ Have I made any promises or commitments in relation to the matter?
- ☐ Have I received a substantial gift, benefit or hospitality from someone who stands to gain or lose from my proposed decision or action?
- ☐ Am I a member of an association, club or professional organisation or do I have particular ties and affiliations with organisations or individuals who stand to gain or lose by my proposed decision or action?
- ☐ Could this situation have an influence on any future employment opportunities outside my current official duties?
- ☐ Could there be any other benefits or factors that could cast doubt on my objectivity?

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<sup>4</sup> Managing Conflicts of Interest in the Public Sector- toolkit, Independent Commission Against Corruption and Crime and Misconduct Commission (Queensland), Sydney and Brisbane, 2004



## **APPENDIX 2 to NIPSO Policy on Handling Conflicts of Interest**

### **DECLARATION OF INTEREST FORM**

**Period: 1 January 20    to 31 December 20**

<b>Surname:</b>	
<b>Forename:</b>	
<b>Title:</b>	
<b>Department:</b>	
<b>Job Title:</b>	
<b>Date of Appointment to Current Position:</b>	
<b>Date of NIPSO Appointment (if different):</b>	

*Where relevant in the boxes below please include dates, role and any specific financial interests*

<p><b>1. Interests</b> in bodies within NIPSO's jurisdiction – any relationship with an authority that is within NIPSO's; Directorships, paid employment, consultancy, (including close relative<sup>5</sup> connections).</p>

<p><b>2. Company interests</b> – any relationship with a company or commercial organisation; Directorships, paid employment, consultancy, (including close relative<sup>6</sup> connections).</p>

<p><b>3. Land or Property Holdings</b></p>

<sup>5</sup> The NIAO describes a 'close relative' as the individual's spouse or partner, children (adult and minor), parent, brother, sister, in-laws and the personal partners of any of these. For other relatives it is dependent upon the closeness of the relationship and degree to which the decisions or activity of the public entity could directly or significantly affect them.

<sup>6</sup> The NIAO describes a 'close relative' as the individual's spouse or partner, children (adult and minor), parent, brother, sister, in-laws and the personal partners of any of these. For other relatives it is dependent upon the closeness of the relationship and degree to which the decisions or activity of the public entity could directly or significantly affect them.

4. **Charities** – trusteeships, governorships or employment with any charities or voluntary organisations.

5. **Public Appointments** – remunerated or unremunerated.

6. **Memberships** – including membership of professional or external bodies, trade or other associations.

7. **Close Relative Links** – specific close relative interest in any of the above.

8. **Other Interests** – any other interests held by you or your close relatives (including self employment), relevant to the business of NIPSO

I confirm that the above declaration is complete and correct to the best of my knowledge and belief. The interests I have declared include both direct and indirect interests (i.e. those of a close relative, friend or associate) and any specific financial interests are shown.

Signature \_\_\_\_\_ Date \_\_\_\_\_

PRINT NAME \_\_\_\_\_

**NOTE: Upon completion, annually or when relevant new interests/connections arise, please submit this declaration to the Director of Finance and Corporate Services (DOFCS) for recording and inclusion in NIPSO's register of interests. Where applicable the DOFCS will notify others, including your line manager, the Ombudsman and/or the Deputy Ombudsman where it is appropriate to do.**

September 2012

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# Guidance on Audit Committees

The FRC does not accept any liability to any party for any loss, damage or costs howsoever arising, whether directly or indirectly, whether in contract, tort or otherwise from any action or decision taken (or not taken) as a result of any person relying on or otherwise using this document or arising from any omission from it.

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# 1 Introduction

- 1.1 This guidance is designed to assist company boards in making suitable arrangements for their audit committees, and to assist directors serving on audit committees in carrying out their role. While boards are not required to follow this guidance, it is intended to assist them when implementing the relevant provisions of the UK Corporate Governance Code. Companies with a Premium listing of equity shares in the UK are required under the Listing Rules either to comply with the provisions of the Code or to explain to shareholders why they have not done so.
- 1.2 Best practice requires that every board should consider in detail what arrangements for its audit committee are best suited for its particular circumstances. Audit committee arrangements need to be proportionate to the task, and will vary according to the size, complexity and risk profile of the company.
- 1.3 While all directors have a duty to act in the interests of the company the audit committee has a particular role, acting independently from the executive, to ensure that the interests of shareholders are properly protected in relation to financial reporting and internal control.
- 1.4 Nothing in the guidance should be interpreted as a departure from the principle of the unitary board. All directors remain equally responsible for the company's affairs as a matter of law. The audit committee, like other committees to which particular responsibilities are delegated (such as the remuneration committee), remains a committee of the board. Any disagreement within the board, including disagreement between the audit committee's members and the rest of the board, should be resolved at board level.
- 1.5 The Code provides that a separate section of the annual report should describe the work of the committee. This deliberately puts the spotlight on the audit committee and gives it an authority that it might otherwise lack. This is not incompatible with the principle of the unitary board.
- 1.6 The guidance contains recommendations about the conduct of the audit committee's relationship with the board, with the executive management and with internal and external auditors. However, the most important features of this relationship cannot be drafted as guidance or put into a code of practice: a frank, open working relationship and a high level of mutual respect are essential, particularly between the audit committee chairman and the board chairman, the chief executive and the finance director. The audit committee must be prepared to take a robust stand, and all parties must be prepared to make information freely available to the audit committee, to listen to their views and to talk through the issues openly.
- 1.7 In particular, the management is under an obligation to ensure the audit committee is kept properly informed, and should take the initiative in supplying information rather than waiting to be asked. The board should make it clear to all directors and staff that they must cooperate with the audit committee and provide it with any information it requires. In addition, executive board members will have regard

to their duty to provide all directors, including those on the audit committee, with all the information they need to discharge their responsibilities as directors of the company.

- 1.8 Many of the core functions of audit committees set out in this guidance are expressed in terms of 'oversight', 'assessment' and 'review' of a particular function. It is not the duty of audit committees to carry out functions that properly belong to others, such as the company's management in the preparation of the financial statements or the auditors in the planning or conducting of audits. To do so could undermine the responsibility of management and auditors. Audit committees should, for example, satisfy themselves that there is a proper system and allocation of responsibilities for the day-to-day monitoring of financial controls but they should not seek to do the monitoring themselves.
- 1.9 However, the high-level oversight function may lead to detailed work. The audit committee must intervene if there are signs that something may be seriously amiss. For example, if the audit committee is uneasy about the explanations of management and auditors about a particular financial reporting policy decision, there may be no alternative but to grapple with the detail and perhaps to seek independent advice.
- 1.10 Under this guidance, audit committees have wide-ranging, time-consuming and sometimes intensive work to do. Companies need to make the necessary resources available. This includes suitable payment for the members of audit committees themselves. They – and particularly the audit committee chairman – bear a significant responsibility and they need to commit a significant extra amount of time to the job. Companies also need to make provision for induction and training for new audit committee members and continuing training as may be required.
- 1.11 For groups, it will usually be necessary for the audit committee of the parent company to review issues that relate to particular subsidiaries or activities carried on by the group. Consequently, the board of a UK-listed parent company with a Premium listing of equity shares in the UK should ensure that there is adequate cooperation within the group (and with internal and external auditors of individual companies within the group) to enable the parent company audit committee to discharge its responsibilities effectively.

## **2 Establishment and effectiveness of the audit committee**

### **Establishment and terms of reference**

- 2.1 The board should establish an audit committee of at least three, or in the case of smaller companies<sup>1</sup> two, members.
- 2.2 The main role and responsibilities of the audit committee should be set out in written terms of reference and should include:
- to monitor the integrity of the financial statements of the company and any formal announcements relating to the company's financial performance, reviewing significant financial reporting judgements contained in them;
  - to review the company's internal financial controls and, unless expressly addressed by a separate board risk committee composed of independent directors or by the board itself, the company's internal control and risk management systems;
  - to monitor and review the effectiveness of the company's internal audit function;
  - to make recommendations to the board, for it to put to the shareholders for their approval in general meeting, in relation to the appointment of the external auditor and to approve the remuneration and terms of engagement of the external auditor;
  - to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
  - to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken; and
  - to report to the board on how it has discharged its responsibilities.

### **Membership and appointment**

- 2.3 The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should

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<sup>1</sup> Defined in the UK Corporate Governance Code as companies below the FTSE 350 index



satisfy itself that at least one member of the audit committee has recent and relevant financial experience.

- 2.4 Appointments to the audit committee should be made by the board on the recommendation of the nomination committee, in consultation with the audit committee chairman.
- 2.5 Appointments should be for a period of up to three years, extendable by no more than two additional three-year periods, so long as members continue to be independent.

### **Meetings of the audit committee**

- 2.6 It is for the audit committee chairman, in consultation with the company secretary, to decide the frequency and timing of its meetings. There should be as many meetings as the audit committee's role and responsibilities require. It is recommended there should be not fewer than three meetings during the year, held to coincide with key dates within the financial reporting and audit cycle<sup>2</sup>. However, most audit committee chairmen will wish to call more frequent meetings.
- 2.7 No one other than the audit committee's chairman and members is entitled to be present at a meeting of the audit committee. It is for the audit committee to decide if non-members should attend for a particular meeting or a particular agenda item. It is to be expected that the external audit lead partner will be invited regularly to attend meetings as well as the finance director. Others may be invited to attend.
- 2.8 Sufficient time should be allowed to enable the audit committee to undertake as full a discussion as may be required. A sufficient interval should be allowed between audit committee meetings and main board meetings to allow any work arising from the audit committee meeting to be carried out and reported to the board as appropriate.
- 2.9 The audit committee should, at least annually, meet the external and internal auditors, without management, to discuss matters relating to its remit and any issues arising from the audit.
- 2.10 Formal meetings of the audit committee are the heart of its work. However, they will rarely be sufficient. It is expected that the audit committee chairman, and to a lesser extent the other members, will wish to keep in touch on a continuing basis with the key people involved in the company's governance, including the board chairman, the chief executive, the finance director, the external audit lead partner and the head of internal audit.

### **Resources**

- 2.11 The audit committee should be provided with sufficient resources to undertake its duties.

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<sup>2</sup> For example, when the audit plans (internal and external) are available for review and when interim statements, preliminary announcements and the full annual report are near completion.

- 2.12 The audit committee should have access to the services of the company secretariat on all audit committee matters including: assisting the chairman in planning the audit committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support.
- 2.13 The company secretary should ensure that the audit committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.
- 2.14 The board should make funds available to the audit committee to enable it to take independent legal, accounting or other advice when the audit committee reasonably believes it necessary to do so.

## **Remuneration**

- 2.15 In addition to the remuneration paid to all non-executive directors, each company should consider the further remuneration that should be paid to members of the audit committee to recompense them for the additional responsibilities of membership. Consideration should be given to the time members are required to give to audit committee business, the skills they bring to bear and the onerous duties they take on, as well as the value of their work to the company. The level of remuneration paid to the members of the audit committee should take into account the level of fees paid to other members of the board. The chairman's responsibilities and time demands will generally be heavier than the other members of the audit committee and this should be reflected in his or her remuneration.

## **Skills, experience and training**

- 2.16 It is desirable that the committee member whom the board considers to have recent and relevant financial experience should have a professional qualification from one of the professional accountancy bodies. The need for a degree of financial literacy among the other members will vary according to the nature of the company, but experience of corporate financial matters will normally be required. The availability of appropriate financial expertise will be particularly important where the company's activities involve specialised financial activities.
- 2.17 The company should provide an induction programme for new audit committee members. This should cover the role of the audit committee, including its terms of reference and expected time commitment by members; and an overview of the company's business model and strategy, identifying the main business and financial dynamics and risks. It could also include meeting some of the company staff.
- 2.18 Training should also be provided to members of the audit committee on an ongoing and timely basis and should include an understanding of the principles of and developments in financial reporting and related company law. In appropriate cases, it may also include, for example, understanding financial statements, applicable accounting standards and recommended practice; the regulatory framework for the company's business; the role of internal and external auditing and risk management.
- 2.19 The induction programme and ongoing training may take various forms, including attendance at formal courses and conferences, internal company talks and seminars, and briefings by external advisers.

### **3 Relationship with the Board**

- 3.1 The role of the audit committee is for the board to decide and to the extent that the audit committee undertakes tasks on behalf of the board, the results should be reported to, and considered by, the board. In doing so it should identify any matters in respect of which it considers that action or improvement is needed, and make recommendations as to the steps to be taken.
- 3.2 The terms of reference should be tailored to the particular circumstances of the company.
- 3.3 The audit committee should review annually its terms of reference and its own effectiveness and recommend any necessary changes to the board. The board should also review the audit committee's effectiveness annually.
- 3.4 The audit committee should report to the board on how it has discharged its responsibilities, including:
- The significant issues that it considered in relation to the financial statements and how these issues were addressed;
  - Its assessment of the effectiveness of the external audit process and its recommendation on the appointment or reappointment of the external auditor; and
  - Any other issues on which the board has requested the committee's opinion.
- 3.5 Where there is disagreement between the audit committee and the board, adequate time should be made available for discussion of the issue with a view to resolving the disagreement. Where any such disagreements cannot be resolved, the audit committee should have the right to report the issue to the shareholders as part of the report on its activities in the annual report.

## 4 Role and responsibilities

### Financial reporting

- 4.1 The audit committee should review, and report to the board on, the significant financial reporting issues and judgements made in connection with the preparation of the company's financial statements (having regard to matters communicated to it by the auditor<sup>3</sup>), interim reports, preliminary announcements and related formal statements.
- 4.2 It is management's, not the audit committee's, responsibility to prepare complete and accurate financial statements and disclosures in accordance with financial reporting standards and applicable rules and regulations. However the audit committee should consider significant accounting policies, any changes to them and any significant estimates and judgements. The management should inform the audit committee of the methods used to account for significant or unusual transactions where the accounting treatment is open to different approaches. Taking into account the external auditor's view, the audit committee should consider whether the company has adopted appropriate accounting policies and, where necessary, made appropriate estimates and judgements. The audit committee should review the clarity and completeness of disclosures in the financial statements and consider whether the disclosures made are set properly in context.
- 4.3 Where, following its review, the audit committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board.
- 4.4 The audit committee should review related information presented with the financial statements, including the business review, and corporate governance statements relating to the audit and to risk management. Similarly, where board approval is required for other statements containing financial information (for example, summary financial statements, significant financial returns to regulators and release of price sensitive information), whenever practicable the audit committee should review such statements first (without being inconsistent with any requirement for prompt reporting under the Listing Rules).

### Narrative Reporting

- 4.5 Where requested by the board, the audit committee should review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for shareholders to assess the company's performance, business model and strategy.

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<sup>3</sup> The auditor is required by auditing standards to communicate to the audit committee the information that the auditor believes will be relevant to the board and the audit committee (in the context of fulfilling their responsibilities respectively under Code provisions C.1.1, C.2.1, C.3.2 and, where applicable, C.3.4) in order to understand the rationale and the evidence relied upon when making significant professional judgments in the course of the audit and reaching an opinion on the financial statements.

- 4.6 This report will inform the board's statement on these matters required under Section C.1.1 of the UK Corporate Governance Code<sup>4</sup>. In order for the board to make that statement, any review undertaken by the committee would need to assess whether the narrative in the front of the report was consistent with the accounting information in the back, so as to ensure that there were no surprises hidden in the accounts.

## **Whistleblowing**

- 4.7 The audit committee should review arrangements by which staff of the company may, in confidence, raise concerns about possible improprieties in matters of financial reporting or other matters. The audit committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.

## **Internal controls and risk management systems**

- 4.8 The audit committee should review the company's internal financial controls (that is, the systems established to identify, assess, manage and monitor financial risks); and, unless expressly addressed by a separate board risk committee comprised of independent directors or by the board itself, the company's internal control and risk management systems<sup>5</sup>.
- 4.9 The company's management is responsible for the identification, assessment, management and monitoring of risk, for developing, operating and monitoring the system of internal control and for providing assurance to the board that it has done so. Except where the board or a risk committee is expressly responsible for reviewing the effectiveness of the internal control and risk management systems, the audit committee should receive reports from management on the effectiveness of the systems they have established and the conclusions of any testing carried out by internal and external auditors.
- 4.10 Except to the extent that this is expressly dealt with by the board or risk committee, the audit committee should review and approve the statements included in the annual report in relation to internal control and the management of risk.

## **The internal audit process**

- 4.11 The audit committee should monitor and review the effectiveness of the company's internal audit function. Where there is no internal audit function, the audit committee should consider annually whether there is a need for an internal audit function and make a recommendation to the board, and the reasons for the absence of such a function should be explained in the relevant section of the annual report.

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<sup>4</sup> In addition, the auditor is required by auditing standards to report, in their report on the financial statements, if the board's statement in the annual report is inconsistent with the knowledge acquired by the auditor in the course of performing the audit.

<sup>5</sup> 'Internal Control: Guidance to Directors' provides further guidance on this subject. Copies are available from the FRC website

- 4.12 The need for an internal audit function will vary depending on company specific factors including the scale, diversity and complexity of the company's activities and the number of employees, as well as cost/benefit considerations. Senior management and the board may desire objective assurance and advice on risk and control. An adequately resourced internal audit function (or its equivalent where, for example, a third party is contracted to perform some or all of the work concerned) may provide such assurance and advice. There may be other functions within the company that also provide assurance and advice covering specialist areas such as health and safety, regulatory and legal compliance and environmental issues.
- 4.13 When undertaking its assessment of the need for an internal audit function, the audit committee should also consider whether there are any trends or current factors relevant to the company's activities, markets or other aspects of its external environment, that have increased, or are expected to increase, the risks faced by the company. Such an increase in risk may also arise from internal factors such as organisational restructuring or from changes in reporting processes or underlying information systems. Other matters to be taken into account may include adverse trends evident from the monitoring of internal control systems or an increased incidence of unexpected occurrences.
- 4.14 In the absence of an internal audit function, management needs to apply other monitoring processes in order to assure itself, the audit committee and the board that the system of internal control is functioning as intended. In these circumstances, the audit committee will need to assess whether such processes provide sufficient and objective assurance.
- 4.15 If the external auditor is being considered to undertake aspects of the internal audit function, the audit committee should consider the effect this may have on the effectiveness of the company's overall arrangements for internal control and investor perceptions in this regard. Investor perceptions are likely to be influenced by:
- the rationale set out in the annual report for the work being performed by the external auditor;
  - the nature and extent of the work performed by the external auditor;
  - how the independence and objectivity of the external auditor and internal audit function have been safeguarded; and
  - whether, in the absence of internal audit work, the audit committee is wholly reliant on the views of the external auditor about the effectiveness of its system of controls relating to core activities and significant locations.
- 4.16 The audit committee should review and approve the internal audit function's remit, having regard to the complementary roles of the internal and external audit functions. The audit committee should ensure that the function has the necessary resources and access to information to enable it to fulfil its

mandate, and is equipped to perform in accordance with appropriate professional standards for internal auditors<sup>6</sup>.

4.17 The audit committee should approve the appointment or termination of appointment of the head of internal audit.

4.18 In its review of the work of the internal audit function, the audit committee should:

- ensure that the internal auditor has direct access to the board chairman and to the audit committee, and is accountable to the audit committee;
- review and assess the annual internal audit work plan;
- receive a report on the results of the internal auditors' work on a periodic basis;
- review and monitor management's responsiveness to the internal auditor's findings and recommendations;
- meet with the head of internal audit at least once a year without the presence of management; and
- monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system.

## **The external audit process**

4.19 The audit committee is the body responsible for overseeing the company's relations with the external auditor.

### *Appointment and tendering*

4.20 The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors. If the board does not accept the audit committee's recommendation, it should include in the annual report, and in any papers recommending appointment or reappointment, a statement from the audit committee explaining its recommendation and should set out reasons why the board has taken a different position.

4.21 The audit committee's recommendation to the board should be based on the assessments referred to below. If the audit committee recommends considering the selection of possible new appointees as external auditors, it should oversee the selection process, and ensure that all tendering firms have such access as is necessary to information and individuals during the duration of the tendering process.

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<sup>6</sup> Further guidance can be found in the Chartered Institute of Internal Auditors' Code of Ethics and the International Standards for the Professional Practice of Internal Auditing.

- 4.22 The audit committee should annually assess, and report to the board on, the qualification, expertise and resources, and independence of the external auditors and the effectiveness of the audit process, with a recommendation on whether to propose to the shareholders that the external auditor be reappointed. The assessment should cover all aspects of the audit service provided by the audit firm, and include obtaining a report on the audit firm's own internal quality control procedures and consideration of audit firms' annual transparency reports, where available. It might also be appropriate for the audit committee to consider whether there might be any benefit in using firms from more than one audit network<sup>7</sup>.
- 4.23 FTSE 350 companies should put the audit services contract out to tender at least once every ten years, to enable the audit committee to compare the quality and effectiveness of the services provided by the incumbent auditor with those of other audit firms. So that there is time to undertake an effective tendering process, and to allow shareholders to provide input to the process should they wish, the company should announce its intention in advance of the commencement of the tendering process.
- 4.24 If the external auditor resigns, the audit committee should investigate the issues giving rise to such resignation and consider whether any action is required.
- 4.25 The audit committee should evaluate the risks to the quality and effectiveness of the financial reporting process, and should consider the need to include the risk of the withdrawal of their auditor from the market in that evaluation.
- 4.26 The audit committee section of the annual report should include an explanation of how the committee has assessed the effectiveness of the external audit process and of the approach taken to the appointment or reappointment of the external auditor, in order that shareholders can understand why it recommended either to reappoint or change the auditors. It should also include information on the length of tenure of the current audit firm, when a tender was last conducted, and any contractual obligations that acted to restrict the audit committee's choice of external auditors.

### *Terms and Remuneration*

- 4.27 The audit committee should approve the terms of engagement and the remuneration to be paid to the external auditor in respect of audit services provided.
- 4.28 The audit committee should review and agree the engagement letter issued by the external auditor at the start of each audit, ensuring that it has been updated to reflect changes in circumstances arising since the previous year. The scope of the external audit should be reviewed by the audit committee with the auditor. If the audit committee is not satisfied as to its adequacy it should arrange for additional work to be undertaken.

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<sup>7</sup> Guidance on the considerations relevant to the use of firms from more than one audit network can be found on the FRC website.



4.29 The audit committee should satisfy itself that the level of fee payable in respect of the audit services provided is appropriate and that an effective, high quality, audit can be conducted for such a fee.

#### *Annual audit cycle*

4.30 At the start of each annual audit cycle, the audit committee should ensure that appropriate plans are in place for the audit.

4.31 The audit committee should consider whether the auditor's overall work plan, including planned levels of materiality, and proposed resources to execute the audit plan appears consistent with the scope of the audit engagement, having regard also to the seniority, expertise and experience of the audit team.

4.32 The audit committee should review, with the external auditors, the findings of their work. In the course of its review, the audit committee should:

- discuss with the external auditor major issues that arose during the course of the audit and have subsequently been resolved and those issues that have been left unresolved;
- review key accounting and audit judgements; and
- review levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditors as to why certain errors might remain unadjusted.

4.33 The audit committee should also review the audit representation letters before signature and give particular consideration to matters where representation has been requested that relate to non-standard issues<sup>8</sup>. The audit committee should consider whether the information provided is complete and appropriate based on its own knowledge.

4.34 As part of the on-going monitoring process, the audit committee should review the management letter (or equivalent). The audit committee should review and monitor management's responsiveness to the external auditor's findings and recommendations.

4.35 At the end of the annual audit cycle, the audit committee should assess the effectiveness of the audit process. In the course of doing so, the audit committee should:

- review whether the auditor has met the agreed audit plan and understand the reasons for any changes, including changes in perceived audit risks and the work undertaken by the external auditors to address those risks;

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<sup>8</sup> Further guidance can be found in the International Standard on Auditing (UK and Ireland) 580: "Management Representations".

- consider the robustness and perceptiveness of the auditors in their handling of the key accounting and audit judgements identified and in responding to questions from the audit committee, and in their commentary where appropriate on the systems of internal control;
- obtain feedback about the conduct of the audit from key people involved, for example the finance director and the head of internal audit;
- review and monitor the content of the external auditor's management letter, in order to assess whether it is based on a good understanding of the company's business and establish whether recommendations have been acted upon and, if not, the reasons why they have not been acted upon; and
- report to the board on the effectiveness of the external audit process.

#### *Independence, including the provision of non-audit services*

- 4.36 The audit committee should assess the independence and objectivity of the external auditor annually, taking into consideration relevant UK law, regulation and professional requirements. This assessment should involve a consideration of all relationships between the company and the audit firm (including the provision of non-audit services) and any safeguards established by the external auditor. The audit committee should consider whether, taken as a whole and having regard to the views, as appropriate, of the external auditor, management and internal audit, those relationships appear to impair the auditor's independence and objectivity.
- 4.37 The audit committee should seek reassurance that the auditors and their staff have no financial, business, employment or family and other personal relationship with the company which could adversely affect the auditor's independence and objectivity, taking account of relevant Ethical Standards for Auditors. The audit committee should seek from the audit firm, on an annual basis, information about policies and processes for maintaining independence and monitoring compliance with relevant requirements, including current requirements regarding the rotation of audit partners and staff.
- 4.38 The audit committee should develop and recommend to the board the company's policy in relation to the provision of non-audit services by the auditor, and keep the policy under review. The audit committee's objective should be to ensure that the provision of such services does not impair the external auditor's independence or objectivity. In this context, the audit committee should consider:
- whether the skills and experience of the audit firm make it the most suitable supplier of the non-audit service;
  - whether there are safeguards in place to eliminate or reduce to an acceptable level any threat to objectivity and independence in the conduct of the audit resulting from the provision of such services by the external auditor;

- the nature of the non-audit services;
- the fees incurred, or to be incurred, for non-audit services both for individual services and in aggregate, relative to the audit fee; and
- the criteria which govern the compensation of the individuals performing the audit.

4.39 The audit committee should set and apply a formal policy specifying the types of non-audit service (if any):

- for which the use of the external auditor is pre-approved (i.e. approval has been given in advance as a matter of policy, rather than the specific approval of an engagement being sought before it is contracted);
- for which specific approval from the audit committee is required before they are contracted; and
- from which the external auditor is excluded.

4.40 Pre-approval of the use of the external auditor may be appropriate where the threats to auditor independence are considered low, for example if the engagement is:

- routine in nature and the fee is not significant in the context of the audit fee; or
- for an audit related service<sup>9</sup>.

4.41 The non-audit services that fall within the second category in paragraph 4.39 are likely to be those which, because of their size or nature or because of special terms and conditions (for example, contingent fee arrangements), are thought to give rise to threats to the auditor's independence. As a consequence, careful consideration will be needed when determining whether it is in the interests of the company that they should be purchased from the audit firm (rather than another supplier) and, if so, whether any safeguards to be put in place by the audit firm are likely to be effective.

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<sup>9</sup> Audit related services are those non-audit services specified as such in the Ethical Standards for Auditors as including:

- Reporting required by law or regulation to be provided by the auditor;
- Reviews of interim financial information;
- Reporting on regulatory returns;
- Reporting to a regulator on client assets;
- Reporting on government grants;
- Reporting on internal financial controls when required by law or regulation; and
- Extended work that is authorised by those charged with governance on financial information and/or financial controls performed where this work is integrated with the audit work and is performed on the same principal terms and conditions.

- 4.42 In determining the policy, the audit committee should take into account the possible threats to auditor objectivity and independence<sup>10</sup> and the Ethical Standards for Auditors regarding the provision of non-audit services by the external audit firm.
- 4.43 The audit committee should agree with the board the company's policy for the employment of former employees of the external auditor, taking into account the Ethical Standards for Auditors and paying particular attention to the policy regarding former employees of the audit firm who were part of the audit team and moved directly to the company. The audit committee should monitor application of the policy, including the number of former employees of the external auditor currently employed in senior positions in the company, and consider whether in the light of this there has been any impairment, or appearance of impairment, of the auditor's independence and objectivity in respect of the audit.
- 4.44 The audit committee should monitor the external audit firm's compliance with the Ethical Standards for Auditors relating to the rotation of audit partners, the level of fees that the company pays in proportion to the overall fee income of the firm, or relevant part of it<sup>11</sup>, and other related regulatory requirements.
- 4.45 A degree of flexibility over the timing of rotation of the audit engagement partner is possible where the audit committee decides that it is necessary to safeguard the quality of the audit. In such circumstances, the audit engagement partner may continue in this position for an additional period of up to two years, so that no longer than seven years in total is spent in this position. The audit committee should disclose this fact and the reasons for it to the shareholders as early as practicable.
- 4.46 The annual report should explain to shareholders how, if the auditor provides non-audit services, auditor objectivity and independence is safeguarded. The explanation should:
- describe the work of the committee in discharging its responsibilities;
  - set out the audit committee's policy on the engagement of the external auditor to supply non-audit services in sufficient detail to describe each of the elements in paragraph 4.39, or cross-refer to where this information can be found on the company's website<sup>12</sup>; and

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<sup>10</sup> The Ethical Standards for Auditors explain that threats to auditor objectivity and independence may arise from:

- Self-interest threats which arise when the auditor has financial or other interests which might cause it to be reluctant to take actions that would be adverse to the interests of the audit firm or any individual in a position to influence the conduct and outcome of the audit;
- Self-review threats which arise when the results of a non-audit service performed by the auditor or others within the firm are reflected in the amounts included or disclosed in the financial statements of the audited entity;
- Management threats which arise where partners and employees of the audit firm make judgments or take decisions on behalf of the management of the audited entity;
- Advocacy threats which arise when the audit firm undertakes work that involves acting as an advocate for an audited entity and supporting a position taken by management in an adversarial context;
- Familiarity threats which arise when the auditor is predisposed to accept or is insufficiently questioning of the audited entity's point of view; and
- Intimidation threats which arise when the auditor's conduct is influenced by fear or threats.

<sup>11</sup> Where the audit firm's profits are not shared on a firm-wide basis, the relevant part of the firm is that by reference to which the audit engagement partner's profit share is calculated.

<sup>12</sup> The statutory requirement for disclosure in the financial statements is contained in the Companies (Disclosure of Auditor Remuneration and Liability Limitation Agreements) Regulations 2008. A template for the provision of this information by the auditors to the audit committee is set out in Appendix A to Ethical Standard 1.

- set out, or cross refer to, the fees paid to the auditor for audit services, audit related services and other non-audit services; and if the auditor provides non-audit services, other than audit related services, explain for each significant engagement, or category of engagements, what the services are, why the audit committee concluded that it was in the interests of the company to purchase them from the external auditor (rather than another supplier) and how auditor objectivity and independence has been safeguarded.

## 5 Communications with shareholders

- 5.1 The terms of reference of the audit committee, including its role and the authority delegated to it by the board, should be made available. A separate section in the annual report should describe the work of the committee in discharging those responsibilities.
- 5.2 The audit committee section should include, inter alia:
- a summary of the role of the audit committee;
  - the names and qualifications of all members of the audit committee during the period;
  - the number of audit committee meetings;
  - the significant issues that the committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditors<sup>13</sup>;
  - an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted, and any contractual obligations that acted to restrict the audit committee's choice of external auditors (see paragraph 4.26); and
  - if the external auditor provides non-audit services, how auditor objectivity and independence is safeguarded (see paragraph 4.46).
- 5.3 The committee will need to exercise judgement in deciding which of the issues it considered in relation to the financial statements are significant, but should include at least those matters that have informed the board's assessment of whether the company is a going concern. The committee should aim to describe the significant issues in a concise and understandable form. The statement need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.
- 5.4 When reporting on the significant issues, the audit committee would not be expected to disclose information which, in its opinion, would be prejudicial to the interests of the company (for example, because it related to impending developments or matters in the course of negotiation).
- 5.5 The chairman of the audit committee should be present at the AGM to answer questions, through the chairman of the board, on the report on the audit committee's activities and matters within the scope of the audit committee's responsibilities.

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<sup>13</sup> The auditor is required by auditing standards to report, in their report on the financial statements, if the section of the annual report describing the work of the audit committee does not appropriately address the matters communicated by the auditor to the audit committee.



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Northern Ireland  
Assembly

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7 June 2021

Margaret Kelly, Northern Ireland Public Services Ombudsman

Issued via email to: [Sarah.Sherry@nipso.org.uk](mailto:Sarah.Sherry@nipso.org.uk)

Dear Margaret

### **REVIEW OF GOVERNANCE AND ACCOUNTABILITY ARRANGEMENTS FOR THE NORTHERN IRELAND AUDIT OFFICE AND THE NORTHERN IRELAND PUBLIC SERVICES OMBUDSMAN**

Thank you for attending the Audit Committee meeting on 2 June 2021, to provide evidence as part of the Committee's *'Review of Governance and Accountability Arrangements for the Northern Ireland Audit Office and the Northern Ireland Public Services Ombudsman'*.

During the evidence session, you agreed provide a copy of the NIPSO whistleblowing policy and details of the process for the removal of a member from the NIPSO Audit and Risk Committee.

I would appreciate the documents by 21 June 2021.

Yours sincerely

*Marie Austin*

**Marie Austin**  
**Clerk to the Audit Committee**