

## Changes to MHS Audit Committee Arrangements

### Issue

1. To **note** the new Terms of Reference for the MHS Audit Committee and the membership of the MHS Audit Committee.

### Background

2. The FSA commissioned a review last year on the remit of the FSA and MHS audit committees. The aim of the review was to ensure that both organisations follow best practice with regard to membership, structure and responsibilities of their respective Audit Committees. Additionally, the Treasury issued a draft Audit Committee Handbook in July 2006 which made a number of important recommendations.
3. As a result of the Review, the FSA Board endorsed new Terms of Reference for the MHS Audit Committee, which included changes to the membership to incorporate members from the MHS Board as well as, at least, one independent member<sup>1</sup>. One member of the Audit Committee is also required to have an appropriate financial qualification and experience.
4. Due to the small pool of joint FSA and MHS Board members, the FSA Board agreed in February 2007 to allow Ian Reynolds, Deputy Chair of the FSA and MHS Boards, to be a member of the MHS Audit Committee on a temporary basis and that this would be reviewed after six months.
5. The revised Terms of Reference for the MHS Audit Committee are attached at Annex.

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<sup>1</sup> Previously the Audit Committee comprised of three independent members

### Membership

6. Following consultation with the Chair and Deputy Chair of the FSA Board, and the MHS and FSA Chief Executives, the Chair of the MHS Board has agreed the membership of the MHS Audit Committee as:

- Deryk Mead (Chair of Audit Committee)  
*MHS Board member*
- Ian Reynolds  
*MHS Board member*
- Bill McLaughlin<sup>2</sup>  
*External independent member*

### Recommendation

7. The MHS Board is invited to:

- **note** the new Terms of Reference for the MHS Audit Committee; and
- **note** the membership of the MHS Audit Committee.

MHS Board Secretariat  
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#### Meat Hygiene Service

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<sup>2</sup> Bill has been a member of the MHS Audit Committee since December 2002 and his appointment has been extended by six-months to 30 June 2007. This will provide the MHS Audit Committee with continuity and a member with an appropriate financial qualification and experience.

## **REVISED TERMS OF REFERENCE FOR THE MHS AUDIT COMMITTEE**

The MHS is an Executive Agency of the Food Standards Agency, which is a non-Ministerial Government Department.

The MHS Audit Committee's role is to advise the MHS Board and the MHS Chief Executive (as the MHS Accounting Officer) on control and governance, assurance and the process of risk identification and reporting.

### **1 Membership of the Audit Committee**

- 1.1 The MHS Audit Committee will have between 3 and 5 non-executive members<sup>1</sup> including the Chair. The Chair and other members of the Committee will be appointed by the MHS Board Chair in consultation with the Chair of the FSA Board and the MHS and FSA Chief Executives. At least one Audit Committee member should be independent and have no other connection with either the FSA or the MHS. The Chair should be a member of the MHS Board and other members drawn from the non-executive members of the MHS Board. At least one member should have financial qualification and experience sufficient to allow them to competently engage with financial management and reporting in the organisation. The FSA Chair and Deputy Chair are not eligible to be members of the MHS Audit Committee.
- 1.2 Appointments will be for not more than three years in the first instance. The term of appointment of the external member will not be renewable in order to preserve the independence of this appointment. The appointment of Audit Committee members who are also FSA or MHS Board members may be renewed for up to a further two years but will in any case cease when they cease to be members of the relevant Board.

### **2 Attendees at Audit Committee meetings**

- 2.1 The MHS Chief Executive (or if unavailable, his or her nominated Deputy), the MHS Finance Director, and a representative from Internal Audit and External Audit will normally attend Audit Committee meetings as will the Chair of the FSA Audit Committee (or their representative). The Committee may ask any other officials of the MHS to attend all or part of a meeting to assist with discussions on specific issues.

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<sup>1</sup> The MHS Board has 7 members, of whom 5 are non-executive.

- 2.2 The Audit Committee may ask any or all of those who normally attend, but who are not members, to withdraw to facilitate open and frank discussion of particular matters.

### **3 Meetings**

- the MHS Audit Committee will meet at least four times a year. The Chair of the MHS Audit Committee may convene additional meetings as necessary.
- a meeting of the MHS Audit Committee will be quorate provided either a majority of the members are present or if half the members including the chair are present.
- the MHS Chief Executive may ask the MHS Audit Committee to convene further meetings to discuss particular issues where they want the Committee's advice.

### **4 Access**

- 4.1 The Head of MHS Internal Audit and the representative of External Audit<sup>2</sup> will have free and confidential access to the Chair of the MHS Audit Committee.

### **5 Reporting**

- 5.1 The Chair of the MHS Audit Committee will inform the MHS Board of relevant matters after each Audit Committee meeting and will also prepare an annual report on the work of the MHS Audit Committee.

### **6 Responsibilities**

- 6.1 The MHS Audit Committee will advise the MHS Board and/or the MHS Chief Executive, as appropriate, on:
- the strategic processes for risk management, control and governance and the contents of the Statement on Internal Control;
  - the accounting policies, the accounts, and the annual report of the organisation, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;
  - the planned activity and results of both internal and external audit;
  - adequacy of management response to issues identified by audit activity, including external audit's management letter;

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<sup>2</sup> the National Audit Office

- assurances relating to the corporate governance requirements for the organisation;
- (when appropriate) proposals for tendering for either Internal or External Audit services or for purchase of non-audit services from contractors who provide audit services; and
- anti-fraud policies and whistle-blowing processes.

The MHS Audit Committee will also periodically review its own effectiveness and report the results of that review to the MHS Board.

## **7 Rights**

7.1 The MHS Audit Committee may:

- a. co-opt additional members for a period not exceeding 1 year to provide specialist skills, knowledge or experience;
- b. require any member of the MHS to attend or produce a written report to assist the MHS Audit Committee in fulfilling its role; and
- c. procure specialist ad-hoc advice at the expense of the organisation, subject to the cost being agreed by the MHS Chief Executive.

## **8 Information requirements**

8.1 At each meeting the Audit Committee will be provided with:

- a report summarising any significant changes to the organisation's Strategic Risk Register;
- a progress report from the Head of Internal Audit summarising:
  - a) work performed (and a comparison with work planned)
  - b) key issues emerging from Internal Audit work
  - c) management response to audit recommendations
  - d) changes to the Internal Audit Plan
  - e) any resourcing issues affecting the delivery of Internal Audit objectives
- a progress report from the External Audit representative summarising work done and emerging findings;

8.2 As and when appropriate the following will also be provided:

- proposals for the terms of reference of Internal Audit;
- the Internal Audit Strategy and annual plan;
- the Head of Internal Audit's Annual Opinion and Report;
- Quality Assurance reports on the internal audit function;

- the draft accounts of the organisation;
- the draft Statement on Internal Control;
- External Audit's management letter;
- notification of any proposals to tender for audit functions; and
- a copy of every Internal Audit report.