

# AUDIT & RISK COMMITTEE (“ARC”) TERMS OF REFERENCE

Lead Executive Officer

Chief Executive Officer

## 1 PURPOSE

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- 1.1 The purpose of the Audit & Risk Committee is to support the Arhag Board in its responsibilities for External Audit, Internal Audit, Internal Control, Risk Management, Governance, Financial Reporting and Fraud, Whistleblowing and Anti-Bribery
- 1.2 At least one member of ARC will have recent and relevant financial experience and the Committee, as a whole, should have competence relevant to the sector in which Arhag operates.
- 1.3 The Chair of the Committee will be responsible for the work of the Committee and will report on the business of the Committee and make recommendations as appropriate at each of the meetings of the Board. In their absence one of the other Board Members will stand in for the Committee Chair
- 1.4 The Chair of the Committee will provide an annual report to the Board, timed to support the preparation of the annual statement on governance and internal control in the financial statements. The report will summarise the Committee's conclusions from its work completed during the year and the achievement of the responsibilities delegated to it by the Board.

## 2 RESPONSIBILITIES

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### 2.1 External Audit

- 2.1.1 Oversee the process for the selection and appointment of the external auditor and make a recommendation to the board for appointment by Shareholders
- 2.1.2 Review the annual external audit plan and challenge any perceived unnecessary work and request any special areas or risks to review.
- 2.1.3 Review the annual management letter from the external auditor and agree the adequacy of the management response to that letter. Where a recommendation is rejected by management the ARC will decide whether Arhag should accept it.
- 2.1.4 Recommend the annual management letter to the Board. Advise the Board on the external auditor's principal matters of concern.
- 2.1.5 Review the Letter of Representation that has to be signed before the Financial Statements are signed, paying particular attention to any non-standard issues of representation.
- 2.1.6 Confirm to the Board that there are no outstanding matters of disagreement between Arhag and the external auditor.
- 2.1.7 Review on an annual basis the performance of the external auditors.
- 2.1.8 Meet annually with the external auditors, (without executives present), to obtain feedback on the audit process, the financial statements and any other items the external auditors wish to bring to the attention of the Board.
- 2.1.9 Recommend to the Board the reappointment or otherwise of the external auditor.
- 2.1.10 Recommend to the Board the proposed fee to be paid to the external auditor and the final fee, if materially different.
- 2.1.11 Review any proposals for the provision and amount of non-audit services from the audit firm.

## **2.2 Internal Audit**

- 2.2.1 Oversee the process for the selection and appointment of the internal auditor and make a recommendation to the Board.
- 2.2.2 Review and approve the annual internal audit plan.
- 2.2.3 Review internal audit reports and the adequacy of the management responses to those reports. Where a recommendation is rejected by management the ARC will decide if Arhag should accept it.
- 2.2.4 Monitor the implementation and effectiveness of agreed recommendations.
- 2.2.5 Monitor and review the effectiveness of the internal audit function.
- 2.2.6 Review proposals for the provision and amount of non-audit services from the audit firm.

## **2.3 Internal Control**

- 2.3.1 Ensure that the internal control systems are effective, and that the adequacy of the overall system of control is reviewed at least annually.
- 2.3.2 Review the quarterly Senior Management Team assurance statements and ensure internal controls are operating satisfactorily, appropriate actions re taken in respect of any issues identified and that the 7 RSH standards are being met.
- 2.3.3 Review the annual assurance reports and propose them as satisfactory to the board to inform the Statement of Control in the Statutory Accounts. Assurance reports to include:
  - CEO statement of internal control
  - SMT assurance statements
  - Self-assessment against the 7 RSH standards
  - Self-assessment against the code of governance
  - Compliance statement against the loan covenants and treasury strategy
  - Review the fraud register, sealing register and whistleblowing register
  - Compliance to the IT and data protection strategy
  - Risk and assurance map
  - Equalities strategy compliance
  - Adherence to legislation

## **2.4 Risk Management**

- 2.4.1 Review and recommend Arhag's risk management appetite, strategy, policy and procedures for approval by the Board.
- 2.4.2 Review and monitor the adequacy and effectiveness of the risk management systems.
- 2.4.3 Ensure that risk management is embedded throughout Arhag.
- 2.4.4 Review the key strategic risks quarterly and each operational risk map at least annually.
- 2.4.5 Monitor strategic risks, and key operational risks if they have become significant, prior to consideration by the Operations Committee or the Arhag Board.
- 2.4.6 Refer any issues identified which relate to the remit of the Operations Committee to that Committee for detailed monitoring.
- 2.4.7 Review Insurance arrangements for the organisation.

## **2.5 Governance**

- 2.5.1 Ensure there are appropriate governance arrangements in place and that they are operating effectively to ensure:

- There are good organisational and working relationships in place between the Board, management and stakeholders, especially residents, customers and staff.
- The system of delegation is operating effectively to ensure the objectives set by the Board are achieved.

2.5.2 Ensure that there are systems and controls in place to accurately complete and submit all statutory and regulatory returns.

2.5.3 Ensure that there are systems and controls in place to ensure that Arhag operates in accordance with all legal, statutory and regulatory requirements.

## **2.6 Financial Reporting**

2.6.1 Review and recommend to the Board for approval the appropriateness of accounting policies selected; the consistency with which they are applied; and recommendations for any changes in accounting policies and practice.

2.6.2 Review and recommend to the Board any significant judgements or estimates utilised in the preparation of the financial statements.

2.6.3 Ensure that the financial statements presented to the Board comply with best prevailing accounting practices, standards and disclosure requirements and in all material matters accurately show the financial state of affairs of Arhag and its results for the year under review.

2.6.4 Review material information presented with the financial statements, in so far as it relates to audit, internal control, risk management, governance and legal, statutory and regulatory requirements.

2.6.5 Review and recommend the annual financial statements of Arhag to the Board for approval.

2.6.6 Monitor the effectiveness of the Treasury, Taxation and Procurement Policies and report on matters to the Board as necessary.

## **2.7 Fraud, Whistleblowing and Anti-Bribery**

2.7.1 Review and approve Arhag's anti-fraud, whistleblowing and anti-bribery policies.

2.7.2 Review procedures for detecting fraud.

2.7.3 Ensure that fraud, whistleblowing and anti-bribery arrangements allow proportionate and independent investigation of such matters. Where requested by the Board oversee any investigation and subsequent report and where recommendations are made these are fully implemented.

2.7.4 Review the fraud register at least annually.

2.7.5 Review any report on any identified fraud and make recommendations to the Board.

## **2.8 Registers**

2.8.1 Review and monitor, on a quarterly basis, ensuring that corrective action is taken, relevant registers including: the litigation register; gifts and hospitality register, and, on an annual basis, declaration of interest returns.

## **2.9 Attendance at Meetings**

2.9.1 The following will be invited to attend the ARC on a regular basis: -

- Co-optees
- Chief Executive Officer
- Director of Finance and Resources
- Representatives of the external and internal auditors

- The Company Secretary / Governance Officer
- Other members of staff who have a direct interest or provide additional information in relation to any items on the agenda.

## **2.10 Private meetings with internal and external auditors.**

- 2.10.1 At least annually, and more frequently if deemed appropriate, the ARC Members will meet the external auditor and the internal auditor, separately, without executives present, to discuss their remits and any issues arising from their audits and other work.

## **2.11 Decision Making Powers**

- 2.11.1 The Committee will make policy decisions on issues within its terms of reference, but excluding decisions incurring expenditure for which there is no agreed budget. Any such decisions will not take effect until after the next Board meeting, to give the Board an opportunity to review the decision.
- 2.11.2 Decisions of the Committee shall be made by majority decision with each member having one vote. In the case of an equality of votes, the Chair shall have the casting vote. Only Committee Members may vote.

## **2.12 Rights**

- 2.12.1 The ARC may: -
- Obtain sufficient resources to carry out its duties;
  - Procure specialist ad-hoc advice subject to the confirmation from the Board that funds are available.
  - Seek any information from Arhag that it requires in order to perform its duties.
  - Request reports on any matter it considers relevant to its areas of responsibility.
  - Request any Arhag employee to attend to assist it with its discussion on any particular matter.

## **2.13 Reporting**

- 2.13.1 After each ARC meeting the draft minutes will be shared with the Board and the Chair will report formally to the Board on all significant matters arising.
- 2.13.2 The Committee will make whatever recommendations to the Arhag Board it deems appropriate, on any area within its remit, where action or improvement is needed.

## **2.14 Committee Effectiveness**

- 2.14.1 Annually the Committee will undertake a formal evaluation of its effectiveness and report this to the Board.
- 2.14.2 Annually the Committee will review its terms of reference.