

## 2. THE RULES - WHAT ARE GOVERNORS' RESPONSIBILITIES?

- 2.1 At the risk of being tedious so early in this material there is a need to write about rules - but they really do form an important foundation for the audit responsibilities of governors. The clerk or secretary to your governing body can provide more information if you wish.
- 2.2 You will find the rules about audit in three places:
- Your HEI's financial memorandum with its funding council, and you should have been given a copy on appointment as a governor - it's a very important document. If you haven't got one then get a copy.
  - The audit code of practice for each of the four funding councils, which sets out both the mandatory requirements and good practice guidance.
  - Your institution's constitutional documents (charter and statutes, articles of governance etc).

### The financial memorandum

- 2.3 This contains the main mandatory requirements for audit as set down by the four funding councils. All of them vary in detail, but not in substance. For example, the Welsh funding council's memorandum includes the following - and it's worth noting here that 'shall' and 'will' convey a mandatory requirement:
- "The institution shall appoint an audit committee, and arrange to provide for internal and external audit, in accordance with the Audit Code of Practice and any other directions drawn up by the Council, in consultation with institutions.
  - "The Council's audit service will, from time to time, evaluate the institution's internal control arrangements. The Council's audit service shall be provided with access to all records information and assets and can require any officer to give any explanation which it considers necessary to fulfil its responsibilities. Welsh Office internal auditors may accompany the Council's auditors on their visits to the institution. On such visits the Welsh Office auditors will be concerned with the way in which the Council's auditors are carrying out their tasks and will not themselves audit arrangements within the institution.
  - "The books and records of the institution will be open to inspection by the Council and the Comptroller and Auditor General. The Council may carry out reviews designed to improve economy, efficiency and effectiveness in the management or operation of the institution including value for money studies. The Comptroller and Auditor General may also carry out value for money studies of the institution's use of resources."

In England, Hefce does not audit internal control arrangements nor does it undertake VfM studies.

## Audit codes of practice

2.4 As well as much good practice guidance, the audit codes of practice of the funding councils set out the detailed requirements. Some of the key elements are important enough to set out in a little detail (sorry!). Again, they vary in detail, but the intentions are similar. Note the references to the governing body (rather than the institution); it is clear where responsibility lies. The new Hefce audit code which is part of the 2008 financial memorandum<sup>10</sup> gives less detailed specification on how audit arrangements in English HEIs should operate, but some of the provisions of the previous code continue to be relevant to good practice, including:

- The governing body must ensure that the institution meets its responsibilities under the financial memorandum.
- The governing body of each HEI must take reasonable steps to ensure that there are sound arrangements for risk management, control and governance, and for economy, efficiency and effectiveness (value for money), within the HEI.
- Members of the audit committee must not have executive authority. Members should not also be members of a finance committee, unless the institution's governing body has made a clear decision to allow one audit committee member to sit on both - that member must not chair either committee. (The Welsh version sensibly requires that staff or students should not be members either, and the Scottish version suggests that the chair of the finance committee might attend meetings of the audit committee - and vice versa - to improve liaison between the two, rather than be a full member.)
- The audit committee of each HEI, advised where appropriate by its internal audit service, must satisfy itself that satisfactory arrangements are in place to promote economy, efficiency and effectiveness.
- Each HEI must have an effective internal audit function, which reports regularly to the audit committee and at least annually to the governing body and the designated officer.
- The work of the internal audit service must cover the whole of the risk management, control and governance arrangements of the HEI.
- The head of the internal audit service must have direct access to the HEI's designated officer, the chair of the audit committee and, if necessary, the chair of the governing body. Internal, as well as external auditors, must also have unrestricted access to information.
- The following information must be provided: a signed and approved set of financial statements, a copy of the audit committee's annual report, a copy of the internal auditors' annual report, the completed annual assurance return; and a copy of the external auditor's management letter and any management response.

2.5 We have tried your patience with so much detail for a reason: to demonstrate that this is a highly regulated area, and the whole governing body must have complete confidence that its HEI is complying with all requirements. Failure to do so can have serious consequences. From the end of 2008-09, HEIs in England will be required to provide a statement of assurance on the quality of data supplied to sector funding and statistical bodies.

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<sup>10</sup> See [www.hefce.ac.uk/pubs/hefce/2008/08\\_19](http://www.hefce.ac.uk/pubs/hefce/2008/08_19)

2.6 Finally, although your HEI's governance documents are unlikely to demand more than meeting the funding council's audit code, they should be complied with strictly. They usually specify the qualifications required of auditors and the manner of their appointment - something not always set out in the codes.

### **Self-challenge questions**

- Have you read the financial memorandum for your own HEI?
- From the list above in paragraph 2.4, pick three issues which you think your governing body should watch carefully. Are they referred to in the latest annual audit committee report to the board?
- For each one, who do you think is responsible for monitoring compliance with them?