

TERMS OF REFERENCE FOR THE DEFENCE AUDIT COMMITTEE

As at March 2008

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Purpose

1. The Defence Audit Committee (DAC) is a sub-committee of the Defence Board with a remit to review and challenge constructively the adequacy of internal controls and risk management assurance processes within the Ministry of Defence (MoD).
2. The DAC will review the financial accounts (the DRAc) on an annual basis prior to submission to the Defence Board. In reaching a view on the accounts, the DAC should consider:
 - assurances about the financial systems which provide the figures for the accounts;
 - the quality of the control arrangements over the preparation of the accounts by the Finance Director;
 - key judgements made in preparing the accounts;
 - any disputes arising between those responsible for preparing the accounts and the auditors; and
 - whether any of the write-offs and losses are indicative of control issues, and whether there are sufficient plans in place to prevent reoccurrence.
3. The DAC will report annually to the Accounting Officer and the Defence Board on its work and will provide the Accounting Officer with the assurance necessary for him to sign the annual Statement on Internal Control (SIC) in the DRAc. An annual report of the DAC's business will also be published annually in parallel with the publication of the DRAc.

Membership

4. The DAC is chaired by a non-executive member of the Defence Board.
5. Membership of the DAC should normally comprise of:
 - Any other non-executive members of the Defence Board
 - A non-executive Chair of an TLB Audit Committee
 - An independent external member (as required)
(Non-executive members should ideally form a majority or at least 50% of the membership of the DAC)
 - An appropriate number of senior Military or Civilian officers as executive members
(Executive members attend on a personal basis and it is not therefore appropriate for representatives to attend when they are unavailable).
6. The Boards Secretariat will provide the secretariat support to the Committee.

Meetings

7. The DAC will meet at least four times a year. The Chair of the DAC may convene additional meetings as he or she deems necessary.
8. A quorum shall be the DAC Chair and one further non Executive member. On those occasions when full attendance is not possible the absent members should, where possible, be consulted and their views obtained on all matters scheduled to be considered by the DAC prior to the meeting. Deputies are not required.
9. PUS and the Finance Director are not members of the DAC but should attend meetings.
10. Head of Internal Audit should normally attend meetings. Other officials may attend for specific items as appropriate.
11. A representative of the National Audit Office (NAO) should normally attend meetings.
12. The DAC may ask other officials of the MoD to provide written or oral reports to the Committee or to attend meetings to assist it with its discussions on any particular matter,
13. The DAC may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussions on any particular matter.
14. The Accounting Officer may ask the DAC to convene further meetings to discuss particular issues on which he wishes to have the Committee's advice.

Responsibilities

15. The DAC will consider and advise upon the adequacy of risk identification and its management and the effectiveness of strategic internal control and assurance systems through reviewing (inter alia) annual stewardship and assurance reports such as:

- the Defence Environment, Safety and Scientific Risks report;
- the Civilian Personnel process report;
- the Service Personnel process report;
- the Acquisition process report;
- the Logistics process report;
- the Health of Financial Systems report;
- the Security report;
- the Business Continuity report;
- the Strategic Communications process report;
- the Defence Internal Audit report (including the Defence Fraud Analysis Unit);
- the Defence Management Consultancy Services report;
- the Operational Audit report; and
- the Commercial process report.

16. The DAC will also consider review reports produced by the NAO.

17. The DAC will additionally review:

- the strategic plan of activity and results of internal audit linked to the management of risk;
- the adequacy of management response to issues identified by audit activity;
- matters relating to corporate governance requirements for the MoD, in particular TLBs annual assurance reports to PUS;
- the strategic plan and results of external audit provided by the NAO (or others if applicable) including Value For Money (VFM) studies, and in particular any significant difficulties or disputes with management encountered during the course of the external audit; and
- the results of DIA activities that are specifically reported to the DAC, in particular no-assurance audit opinions.

Other matters

18. From time to time:

- the Chair of the DAC should meet with the PUS in private;
- the Chair of the DAC should meet informally with the Chairs of TLB Audit Committees in private; and
- the Non-Executive members of the DAC may also meet with the Director of DIA and NAO (separately or together) in private.

19. The Chair of the DAC should ensure that the Defence Board is updated on any significant issues or concerns raised by the Committee.

20. DAC minutes will be issued to:

- DAC members and attendees;
- Defence Board members;
- TLBs Command Secretaries or equivalent; and
- TLB Audit Committee Chairs

21. The Chair of the DAC will receive copies of the Minutes of TLB Audit Committees.

22. The DAC will annually review its own operations and terms of reference.

23. Each member should take personal responsibility to pro-actively declare any potential conflict of interest arising out of business arising on the Committee's agenda or from changes in their personal circumstances. The DAC Chair should then determine an appropriate course of action with that member.