

## BOARD OF THE CORPORATION

### AUDIT COMMITTEE



#### TERMS OF REFERENCE

##### **1 Purpose**

- 1.1 The Audit Committee is a Committee of the Corporation established under the terms of clause 6 of the Articles of Government.
- 1.2 The purpose of the Committee is to advise the Corporation on the College's systems of internal control, risk management and (corporate) governance arrangements.
- 1.3 These Terms of Reference have been drawn up with regard to the requirements set out in the Post-16 Audit Code of Practice 2016-2017 – Assurance and Accountability Requirements for Post-16 Providers (March 2017) and financial memorandum/funding agreement.

##### **2. Membership**

- 2.1 The Committee shall consist of four members (including any co-opted external members – if required). In accordance with the Articles of Government, staff governors with the exception of those in senior posts may serve on the Audit Committee. Governors ineligible for membership are the Principal and other senior management staff, Chair of the Board and members of the Finance & Resources Committee. The Committee should include individuals with an appropriate mix of skills and experience and collectively have recent and relevant experience in risk management, finance and audit and assurance. Accordingly, membership may include persons who are not governors who have been recommended by the Search, Governance and Development Committee and approved by the Board of the Corporation (to be known as co-opted external members). The Board must ensure that the Audit Committee maintains its independence when considering the appointment of Committee members.
- 2.2 A governor's term of office as a member of the Committee shall last until the expiry of their term of office as a governor unless s/he has been appointed for a further term of office as a governor.
- 2.3 Co-opted external members of the Committee will be appointed by the Board and will hold office for a period of no longer than four years, following which they will be eligible for reappointment.
- 2.4 The Board will review the membership of Committees from time to time and may make changes as it sees fit.

##### **3. Election of Chair and Vice-Chair**

- 3.1 At the first meeting of the Committee in each academic year, members shall appoint a Chair and Vice Chair from amongst the members who are governors. Co-opted external members are not permitted to be appointed as Chair or Vice Chair of the Committee, but in all other respects are afforded equivalent status to full members of the Board of the Corporation.
- 3.2 In the event of the Chair and Vice Chair of the Committee being unable to attend, the remaining Committee members (noting paragraph 3.1), should elect one of themselves as chair for the meeting.

#### **4. Frequency of Meetings and Quorum**

- 4.1 The Audit Committee shall meet at least once a term. Additional meetings may be called as necessary in agreement with the Chair. The meeting held in the Autumn Term will be held jointly with the Audit Committee with the purpose of jointly reviewing the annual financial statements and associated year-end documents.
- 4.2 The quorum shall be three members of the Committee; two of whom must be full members of the Board of the Corporation (i.e. governors).

#### **5. Responsibilities of the Committee<sup>1</sup>**

- 5.1 To assess and provide the Corporation with an opinion on the adequacy and effectiveness of the college's audit arrangements, framework of governance, risk management and control, and processes for the effective and efficient use of resources, the solvency of the institution and the safeguarding of its assets:
- 5.2 To advise the corporation on the appointment, reappointment, dismissal and remuneration of the financial statements and regularity auditors and other assurance providers, including internal auditors, and establish that all such assurance providers adhere to relevant professional standards. The Committee recognises and works within the Post-16 Audit Code of Practice.
- 5.3 To inform the corporation of any additional services provided by the financial statements, regularity and other audit and assurance providers and explain how independence and objectivity were safeguarded.
- 5.4 To monitor, within agreed timescales, the implementation of recommendations arising from the management letters and reports of the financial statements and regularity auditor, and of any reports submitted by other providers of audit and assurance services to the college.
- 5.5 To advise the Board of the Corporation on the scope and objectives of the work of the IAS, the financial statements auditor and the funding auditor (where appointed);
- 5.6 To ensure effective coordination between the IAS, the funding auditor (where appointed) and the financial statements auditor; including whether the work of the funding auditor should be relied upon for internal audit purposes;
- 5.7 To consider and advise the Board of the Corporation on the audit strategy and annual internal audit plans for the IAS;
- 5.8 To advise the Board of the Corporation on internal audit assignment reports and annual reports and on control issues included in the management letters of the financial statements auditor (including their work on regularity) and the funding auditor, and management's responses to these;

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<sup>1</sup> *These reflect the minimum terms of reference detailed in the Post-16 Audit Code of Practice 2016-2017 and in accordance with the Code of Practice, the Corporation may add to these terms of reference but must not add terms that:*

- *require the Audit Committee to adopt an executive role;*
- *require members of the Committee to offer professional advice to the Corporation outside their role as governors; or*
- *cause the Committee to lose its primary focus on the adequacy and effectiveness of the College's audit arrangements and risk management, control and governance processes.*

- 5.9 To monitor, within an agreed timescale, the implementation of agreed recommendations relating to internal audit assignment reports, internal audit annual reports, the funding auditor's management letter and spot-check reports and the financial statements auditor's management letter;
- 5.10 To consider and advise the Board of the Corporation on relevant reports by the National Audit Office (NAO), the Skills Funding Agency or their successors and other funding agencies, and where appropriate, management's response to these;
- 5.11 To monitor and assess the performance and effectiveness of the IAS and financial statements auditor;
- 5.12 To investigate any activity within its terms of reference, and have the right of access to obtain all the information and explanations it considers necessary, from whatever source, to fulfil its remit.
- 5.13 To oversee the college's policies and procedures on fraud, irregularity and whistleblowing, and ensure the proper, proportionate and independent investigation of all allegations and instances of fraud and irregularity; that investigation outcomes are reported to the audit committee; that the external auditors (and internal auditors) have been informed, and that appropriate follow-up action has been planned / actioned, and that all significant cases of fraud or suspected fraud or irregularity are reported to the chief executive of the appropriate funding body.
- 5.14 Whenever it is satisfied that it is appropriate to do so, the Committee has the right to go into confidential session and exclude any or all participants and observers, except the Secretary to the Corporation or his/her appointed deputy. The rules relating to quoracy must be observed;
- 5.15 To recommend the annual financial statements to the Corporation for approval;
- 5.16 To produce an annual report for the corporation. The annual report must summarise the committee's activities relating to the financial year under review, including any significant issues arising up to the date of preparation of the report, and any significant matters of internal control included in the management letters and reports from auditors or other assurance providers. It must include the committee's view of its own effectiveness and how it has fulfilled its terms of reference. The report must include the audit committee's opinion on the adequacy and effectiveness of the college's audit arrangements, its framework of governance, risk management and control, and its processes for securing economy, efficiency and effectiveness. The annual report must be submitted to the corporation before the Statement of Corporate Governance and Internal Control in the annual accounts is signed.

5.17 Policy and Procedure Review

The Committee has responsibility/delegated authority to review and approve policies and procedures as outlined in Appendix 1. However, the Committee is required to present strategies and policies to the Board where *substantial/significant* revisions are proposed.

## 6. Clerking Arrangements

- 6.1 The Secretary to the Corporation or her appointed deputy shall be the clerk to the Audit Committee.

## **7. Reporting to the Board**

- 7.1 The non-confidential minutes of each meeting of the Audit Committee shall be presented to the next ordinary meeting of the Board of the Corporation for information or approval as appropriate.
- 7.2 Any recommendations made by the Committee will appear as separate items on the agenda for the next ordinary meeting of the Board.

## **8. Review and Approval**

- 8.1 The terms of reference of the Audit Committee will be reviewed on an annual basis and recommendations made to the Board as appropriate.
- 8.2 These terms of reference were approved in July 2017.

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### **Revision History:**

- Approved by the Corporation on 13 July 2011 and supersedes terms of reference previously agreed.
- Reviewed by the Audit Committee and recommended to the Corporation on 9 May 2012.
- Approved by the Corporation on 11 July 2012.
- Reviewed by the Audit Committee and recommended to the Corporation on 8 May 2013.
- Approved by the Corporation on 10 July 2013.
- Reviewed by the Audit Committee and recommended to the Corporation on 14 May 2014.
- Approved by the Corporation on 08 October 2014.
- Reviewed by the Audit Committee and recommended to the Corporation on 13 May 2015.
- Approved by the Corporation on 6 July 2015.
- Reviewed by the Audit Committee and recommended to the Corporation on 11<sup>th</sup> May 2016
- Approved by the Corporation on 13 July 2016.
- Reviewed by the Audit Committee and recommended to the Corporation on 10 May 2017
- Approved by the Corporation on 12 July 2017

**Table 1: Minimum cycle of audit committee business.**

| Current year item of business  | Indicative timings (✓) |                              |        |        |                |        | To recommend to the corporation for approval   |
|--|------------------------|------------------------------|--------|--------|----------------|--------|--|
|  | Previous year          | Current year                 |        |        | Following year |        |  |
|  | Summer                 | Autumn                       | Spring | Summer | Autumn         | Spring |  |
| <b>1</b> Appointment and reappointment or dismissal (where applicable) and remuneration of internal auditors.              | ✓                      |                              |        |        |                |        | Yes  |
| <b>2</b> Internal audit needs assessment, strategic plan and annual plan.  |                        | ✓                            |        |        |                |        | Yes  |
| <b>3</b> Risk management annual report from college management.  |                        |                              |        |        | ✓              |        | Presented for confirmation that the current internal control arrangements are effective. |
| <b>4</b> Appointment and reappointment or dismissal (where applicable) and remuneration of financial statements auditors.  | ✓                      |                              |        |        |                |        | Yes  |
| <b>5</b> Appointment and reappointment or dismissal (where applicable) and remuneration of the internal audit service.     | ✓                      |                              |        |        |                |        | No   |
| <b>6</b> Funding auditor interim opinion and management letter (where applicable).*  |                        |                              |        |        | ✓●             |        | Yes*   |
| <b>7</b> Internal audit service annual report.*  |                        |                              |        |        | ✓●             |        | Yes*   |
| <b>8</b> Financial statements audit management letter.*  |                        |                              |        |        | ✓●             |        | Yes*   |
| <b>9</b> Annual report of the audit committee.*  |                        |                              |        |        | ✓              |        | Yes* (presented for information only)  |
| <b>10</b> Recommendation of approval to the Corporation of annual Financial Statements including regularity audit opinion. |                        |                              |        |        | ✓              |        | Yes  |
| <b>11</b> Review of performance of the financial statements auditors and the internal audit service.                       |                        |                              |        |        | ✓              |        | No   |
| <b>12</b> Internal audit reports on reviews and progress update.   |                        | Depends on timing of reports |        |        |                |        | No   |
|  |                        | ✓                            | ✓      | ✓      |                |        |  |
| <b>13</b> Consideration of funding auditor partnership spot-check reports (where applicable).                              |                        | Depends on timing of visits  |        |        |                |        | No   |
|  |                        | ✓                            | ✓      | ✓      |                |        |  |

**Notes to Table 1 -** \* Corporations must have all of these reports (items 6, 7, 8 and, 9) available before approving the financial statements and the statements included therein on corporate governance, responsibilities of members of the corporation and the system of internal control. The corporation must approve the annual financial statements to meet SFA deadlines.

- Items 7, 8 and 9 may be deferred until the spring term, but see comment above.

**Audit Committee  
Responsibility for Policy Review and Approval**

| <b>Strategy/Policy/Procedure</b>     | <b>Approved by Audit Committee*</b> | <b>Reviewed and recommended to the Board of the Corporation for Approval</b> |
|--------------------------------------|-------------------------------------|--|
| Anti-Bribery Policy                  |                                     | ✓  |
| Business Continuity Plan             | ✓                                   |  |
| Financial Procedures                 | ✓                                   |  |
| ICT Disaster Recovery Policy         | ✓                                   |  |
| Risk Management Policy               |                                     | ✓  |
| SaQAC Audit Guidelines & Procedures  | ✓                                   |  |
| Sub-Contractor Activity Policy       | ✓                                   |  |
| Supply Chain Fees and Charges Policy | ✓                                   |  |
| Tendering Procedure                  | ✓                                   |  |
| Value for Money Policy               | ✓                                   |  |

\* The Committee is required to present strategies and policies to the Board where *substantial/significant* revisions are proposed.