

AUDIT COMMITTEE TERMS OF REFERENCE 2021-22

Constitution

As part of the conditions of funding, the Corporation Board is required to establish an Audit Committee (the committee). The committee must not adopt an executive role.

Purpose

The committee must advise the Corporation on the adequacy and effectiveness of the corporation's assurance framework. The committee must play a robust role in good stewardship and risk management. The committee will advise and support the Corporation in explaining, in its annual accounts, the measures taken to ensure it has fulfilled its statutory and regulatory responsibilities.

Membership

The committee shall be appointed by the Corporation Board from amongst the governors of the Corporation Board and shall consist of not less than three members (which must be a majority of governors and must not include the Corporation Chair or the Principal). Members must be independent, objective and have an appropriate mix of skills to allow the committee to discharge its duties effectively. Collectively, members of the committee should have recent, relevant experience in risk management, finance and assurance. Abilities of members should reflect the needs of the Corporation and extend to expertise in all relevant financial and non-financial areas. Members must be prepared to support, challenge and warn the board of governors. In accordance with the Post 16 Audit Code of Practice, staff governors may serve on the committee if governors are satisfied such members can meet good practice standards of independence and objectivity.

The Audit Committee will review its membership at least annually and make any recommendations on recruitment to the Search and Governance Committee, via the FE Corporation. The Audit Committee will also regularly review training and development of members and ensure appropriate training is put in place to ensure skills and knowledge are up to date and any identified gaps in skillsets are addressed.

Attendance

Director of Finance and Corporate Resources

Representatives of the external auditor and internal audit service will attend. The committee will have opportunities to meet with the internal and external audit representatives at each meeting.

Neither the Chair of the Corporation Board nor Principal / Chief Executive should routinely attend the committee. The Principal / Chief Executive should be invited to attend and should discuss at least annually with the committee the process for assurance that supports the Annual Management Letter. The Principal should also attend when the committee considers the draft internal audit plan and annual accounts.

All other Officers can be invited to attend, particularly when the committee is discussing areas of risk or operation that are the responsibility of that Officer.

Quorum

No business shall be transacted at the meeting unless three members are present.

Frequency

The committee must consider the frequency and timing of meetings needed to allow it to discharge all of its responsibilities. The external or internal auditors may request a meeting if they consider that one is necessary. Based on this consideration the committee shall meet as a minimum three times a year.

Administration

The Chair of the committee will agree the agenda for each meeting with the Clerk to the Corporation and the Director of Finance and Corporate Resources. The committee shall be supported administratively by the Clerk whose duties in this respect will include:

- Agreement of agenda with Chair and attendees and collation of papers
- Taking the minutes
- Keeping a record of matters arising and issues to be carried forward
- Advising the committee on pertinent issues / areas
- Enabling the development and training of committee members

All papers presented to the committee should be prefaced by a summary of key issues and clear recommendations setting out what is required of the committee.

Annual Plan

The committee will develop an annual programme of work for approval by the Corporation Board at its first meeting of the financial year.

Authority

The committee is authorised by the Corporation Board to investigate any activity within its terms of reference. It is authorised to seek any information and explanations it considers necessary, from whatever source to fulfil its remit and all employees are directed to co-operate with any request made by the committee. The committee is authorised by the Corporation Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The Audit Committee will present a brief report of its activity to the Corporation Board at the next available meeting. The Chair of the committee will draw the Corporation Board's attention to any issues of significance, including issues where the committee is unable to provide a satisfactory level of assurance.

The committee will provide the Corporation Board with an Annual Report setting out issues that have been considered by the committee and details of assurance provided. 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 reports of audit and assurance providers. The report will include details of the date of appointment of the external auditors and the remaining term of contract. It must include the committee's view of its own effectiveness and how it has fulfilled its terms of reference. The report must also include the audit committee's opinion on the adequacy and effectiveness of the college's assurance arrangements, its framework for governance, risk management and control processes for the effective and efficient use of resources, solvency of the institution and safeguarding of its assets. The annual report must be submitted to the Corporation Board before the Statement of Corporate Governance and Internal Control in the accounts is signed.

Duties

The duties of the committee can be categorised as follows:

Governance, risk management and internal control

The committee shall review the establishment and maintenance of an effective system of governance, risk management and internal control, across the whole of the College's activities that supports the achievement of the College objectives and provide the Corporation with an opinion of the effectiveness of arrangements.

In particular, the committee will review the adequacy and effectiveness of:

- All risk and control related disclosure statements (in particular the annual management letter), together with any accompanying internal audit reports, external audit opinion or other appropriate independent assurances, prior to endorsement by the Corporation Board
- The underlying assurance processes that indicate the degree of achievement of corporate objectives, the effectiveness of the management of key risks and the appropriateness of the above disclosure statements
- The policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and any related reporting and self-certification
- The policies and procedures for all work related to fraud and corruption.

In carrying out this work the committee will primarily utilise the work of internal audit, external audit and other assurance functions, but will not be limited to these sources. It will also seek reports and assurances from other staff as appropriate, concentrating on the over-arching systems of governance, risk management and internal control, together with indicators of their effectiveness.

The committee will review the Risk Register / Board Assurance Framework at least three times annually and it is the responsibility of members to appropriately challenge any changes to or closures of risks. Members will also review the Risk Management Strategy annually and recommend this to the FE Corporation for approval; and will consider an annual report on the effectiveness of risk management, which will be taken into account when making judgements in relation to the effectiveness of risk management.

Internal audit

The committee shall ensure that there is an effective internal audit function that provides appropriate independent assurance to the Audit Committee, Principal / Chief Executive and Corporation Board, and ensure that any internal audit provider adheres to relevant professional standards. The committee will advise the Corporation on appointment, reappointment, dismissal and remuneration of internal auditors. The committee shall also inform the Corporation of any additional services provided by the internal auditor and explain how independence and objectivity were safeguarded. This will be achieved by:

- Consideration of the provision of the internal audit service, the cost of the audit and any questions of resignation and dismissal
- Review and approval of the internal audit strategy, operational plan and more detailed programme of work, ensuring that this is consistent with the audit needs of the organisation as identified in the Assurance Framework
- Considering the major findings of internal audit work (and management's response), and ensuring co-ordination between the internal and external auditors to optimise audit resources
- Ensuring that the internal audit function is adequately resourced and has appropriate standing within the organisation
- Receiving an annual report from the internal auditor, which should include an opinion on the degree of assurance that can be placed on the system of internal control

External audit

The committee shall review the work and findings of the external auditors and consider the implications and management's responses to their work. The committee will advise the Corporation on appointment, reappointment, dismissal and remuneration of the external auditor, reporting accountant and other assurance providers (if applicable) and establish that all such assurance providers adhere to relevant professional standards. The committee will ensure a policy is in place for regular retendering of the external audit service. The committee shall also inform the Corporation of any additional services provided by the external auditor, reporting accountant and other assurance providers (if applicable) and explain how independence and objectivity were safeguarded. This will be achieved by:

- Consideration of the appointment and performance of the external auditors

- Discussion and agreement with the external auditors, before the audit commences, of the nature and scope of the audit as set out in the annual plan, and ensuring co-ordination
- Discussion with the external auditors of their local evaluation of audit risks and assessment of the Corporation Board and associated impact on the audit fee
- Review of all external audit reports, including the report to those charged with governance
- Agreement of the annual audit letter before submission to the Corporation Board
- Review of any work undertaken outside the annual audit plan, together with the appropriateness of management responses.

Other assurance functions

The Audit Committee shall review the findings of other significant assurance functions such as the Education and Skills Funding Agency, Combined Authority, National Audit Office, and other similar bodies, both internal and external to the organisation, and consider the implications for the governance of the organisation.

The committee shall monitor, within agreed timescales, the implementation of recommendations arising from any reports of audit and assurance providers.

Counter fraud

The committee shall oversee the Corporation's policies on and processes around fraud, irregularity, impropriety 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 external auditors (and internal auditors where appointed) have been informed, that appropriate follow up action has been planned / actioned, and that all significant cases of fraud, or suspected fraud, theft, bribery, corruption, irregularity major weakness or breakdown are reported to the ESFA and other relevant funding authority, as soon as possible; and that risks around fraud have been identified and controls put in place to mitigate them.

General Data Protection Regulations (GDPR)

The committee shall oversee the Corporation's arrangements for compliance with GDPR requirements and be notified of any data breaches and action taken.

Management

The committee shall request and review reports and positive assurances from officers on the overall arrangements for governance, risk management and internal control.

The committee may also request specific reports from individual functions within the organisation as they may be appropriate to the overall arrangements.

Financial reporting

The Audit Committee shall monitor the integrity of the financial statements of the College and any formal announcements relating to the College's financial performance.

The committee should ensure that the systems for financial reporting to the Corporation Board, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Corporation Board.

The committee shall ensure that all significant losses have been properly investigated, and the internal and external auditors and funding bodies have been informed appropriately.