

TERMS OF REFERENCE FOR THE AUDIT COMMITTEE

1. Constitution

1.1 The Corporation hereby resolves to adopt the following Terms of Reference for the Audit Committee.

1.2 These Terms of Reference are based on the minimum Terms of Reference and other requirements detailed in the Audit Code of Practice, the Joint Audit Code of Practice and the Post-16 Audit Code of Practice 2016/17 and 2017/18 as well as ICSA Guidance. Nothing has been added to those minimum requirements which would:

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

2. Purpose

2.1 The role of the Audit Committee includes advising the Corporation on the adequacy and effectiveness of the College's assurance framework. In addition the Audit Committee advises and supports the Corporation in explaining in its annual accounts the measures taken to ensure it has fulfilled its statutory and regulatory responsibilities. The Accounts Direction sets out the funding bodies' specific requirements including the required format of the College Corporation's Statement of Corporate Governance and Internal Control.

3. Membership

3.1 The Audit Committee shall be appointed by the Corporation and shall have up to seven Members including, where appropriate, a Co-opted Member. In order to maximise the Committee's independence and objectivity, the following people shall not be eligible to serve on the Committee:-

- The Chair of the Corporation
- Those with executive responsibilities for the College at senior level, such as the Principal, Senior Postholders and members of the College's Senior Management, whether as Co-opted Members of the Audit Committee, Staff Governors¹ or Co-opted Governors

¹ The Post 16 Audit Code of Practice 2017/18 added that the membership "should not include staff governors". The Corporation corresponded with the ESFA over this point and on 9 October 2018 agreed that the reappointment of the Staff Governor to the Audit Committee would not compromise the "independence and integrity" of the Audit Committee for the reasons set out in the letter to the ESFA dated 31 July 2018. This action was in accordance with the response from Eileen Milner, Chief Executive of the ESFA dated 7 August 2018.

- Corporation Members who have significant financial and personal interests in the College
 - Employees, partners or those with a significant interest in any of the College's professional advisers or suppliers of other significant goods or services.
- 3.2** Audit Committee Members may serve until the end of their terms as Corporation Members. External Co-opted Members may serve for up to two successive terms of four years in that capacity and such an appointment will be counted as additional service to any subsequent appointment as a Corporation Member. A Member may resign from their appointment at any time by giving notice in writing to the Clerk to the Corporation. Such resignations will be recorded at the next Corporation meeting.
- 3.3** The quorum shall be three Members of the Audit Committee.
- 3.4** The Chair of the Audit Committee shall be appointed by the Corporation. If the Chair is absent from any Audit Committee Meeting, the Members present shall choose one of their number to act as Chair for that meeting provided that the Member chosen shall not be the Staff or Student Member. A Co-opted Member of the Audit Committee should not normally be appointed as its Chair, since the Chair has to be able to attend, as of right, all meetings of the Corporation.
- 3.5** The Audit Committee has the responsibility to include individuals with an appropriate mix of skills and experience to allow it to discharge its duties effectively. Collectively, Members of the Committee should have recent, relevant experience in risk management, finance and assurance.
- 3.6** Members shall be provided with appropriate and timely training, both in the form of an induction programme for new members and on an ongoing basis for all members.
- 4. Attendance at Meetings**
- 4.1** The internal auditor (where appointed) must be invited to attend all meetings. The external auditor, reporting accountant and other assurance providers (if applicable) must be invited to attend meetings where business relevant to them is being discussed (including once at the planning stage before the audit and once after the audit at the reporting stage).
- 4.2** Senior management shall be invited to attend Audit Committee meetings particularly where their area of responsibility is under discussion.
- 4.3** The Clerk to the Corporation shall be the Clerk to the Audit Committee.
- 4.4** Other Corporation Members shall have a right of attendance.
- 4.5** The Audit Committee has the right, whenever it is satisfied that it is appropriate to do so, to go into confidential session and exclude any, or all, participants and observers, except the Clerk to the Corporation.
- 4.6** Meetings shall normally include the opportunity for the Audit Committee to meet with the internal auditor (where appointed) or external auditor, reporting accountant and other assurance providers (if applicable) without management being present.
- 5. Frequency of Meetings**

5.1 Meetings shall be held not less than three times a year. The internal auditor (where appointed) or external auditor, reporting accountant and other assurance providers (if applicable) may request a meeting if they consider that one is necessary.

6. Authority

6.1 The Audit Committee has the right to investigate any activity within its terms of reference.

6.2 The Audit Committee must not adopt an executive role.

6.3 The Audit Committee has the right to access all the information and explanations it considers necessary, from whatever source, to fulfil its remit.

6.4 The Audit Committee is authorised by the Corporation to obtain outside legal or other independent professional advice, relevant information from sub-contractors and other third parties and to secure the attendance of outsiders with the relevant experience and expertise if it considers this necessary.

6.5 The Head of Internal Audit (external auditor, reporting accountant and other assurance providers (if applicable)) has the right of direct access to the Audit Committee Chair.

7. Principal Responsibilities

The principal responsibilities of the Audit Committee shall be:

- 7.1
 - to assess and provide the Corporation with an opinion on the adequacy and effectiveness of the College's framework of governance, risk management and control processes for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets
- 7.2
 - to oversee the monitoring of the College's approach to risk management and report as necessary to the Corporation
- 7.3
 - to monitor the College Risk Register once a term
- 7.4
 - to consider the Risk Management annual report from College Management and to recommend it to the Corporation for approval
- 7.5
 - to draw to the attention of the Corporation any instance where the Head of Internal Audit (where appointed) or the Audit Committee consider the level of audit resources limits the scope of the internal auditor (where appointed) or prejudices the ability of the internal auditor (where appointed) to deliver a service consistent with the definition of internal auditing
- 7.6
 - to advise the Corporation on the 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
- 7.7
 - to oversee the selection process for new auditors and if an auditor resigns the Committee shall investigate the issues leading to this and decide whether any action is required

- 7.8** • to advise the Corporation on the scope and objectives of the work of the internal auditor (where appointed), external auditor, reporting accountant and other assurance providers (if applicable)
- 7.9** • to ensure effective coordination between the internal auditor (where appointed), external auditor, reporting accountant and other assurance providers (if applicable)
- 7.10** • to consider and advise the Corporation on the audit strategy and annual internal audit plans for the internal auditor (where appointed)
- 7.11** • to advise the Corporation on internal audit assignment reports and annual reports and on control issues included in the management letters of the external auditor (including their work on regularity) and the reporting accountant and other assurance providers (if applicable), and management's responses to these
- 7.12** • to monitor, within agreed timescales, the implementation of recommendations arising from any reports of audit and assurance providers
- 7.13** • to consider and advise the Corporation on relevant reports by the National Audit Office (NAO), the Education and Skills Funding Agency and other funding bodies, and where appropriate management's response to these
- 7.14** • to establish, in conjunction with College management, relevant annual performance measures and indicators, and to monitor the effectiveness of the internal auditor (where appointed) and external auditor through these measures and indicators and decide, based on this review, whether a competition for price and quality of the audit service is appropriate
- 7.15** • to arrange for periodic reviews of its own performance and, at least annually, review its terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the Corporation for approval
- 7.16** • to produce an annual report for the Corporation summarising the Committee's activities relating to the financial year under review, including:
 - a summary of the work undertaken by the committee during the year
 - any significant issues arising up to the date of preparation of the report
 - any significant matters of internal control included in the reports of audit and assurance providers
 - the Committee's view of its own effectiveness and how it has fulfilled its terms of reference
 - the Committee's opinion on the adequacy and effectiveness of the College's assurance arrangements, framework of governance, risk management and control processes for the effective and efficient use of resources, solvency of the institution and the safeguarding of its assets
 - Submit the annual report to the Corporation before the Statement of Corporate Governance and Internal Control in the accounts is signed
 - A copy of the Audit Committee's annual report must be submitted to the relevant funding body with the annual accounts

- 7.17 • to oversee the College'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 the external auditor (and internal auditor if applicable) has 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 ESFA
 - risks around fraud have been identified and controls put in place to mitigate them

- 7.18 • to 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

- 7.19 • to monitor the integrity of the annual financial statements, reviewing significant financial reporting issues and judgements which they contain; In particular reviewing and challenging where necessary:
 - the consistency of, and any changes to, accounting policies
 - the methods used to account for significant or unusual transactions where different approaches are possible
 - whether the College has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the external auditor
 - the clarity of disclosure in the College's financial reports and the context in which statements are made
 - all material information presented with the financial statements, such as the Statement of Corporate Governance and Internal Control (insofar as it relates to the audit and risk management)

- 7.20 • to review the findings of the audit with the external auditor. This shall normally include but not be limited to, the following:
 - a discussion of any major issues which arose during the audit
 - any accounting and audit judgements
 - levels of errors identified during the audit
 - the effectiveness of the audit

- 7.21 • to review the statements to be included in the annual report concerning internal controls and risk management

- 7.22 • to review any representation letter(s) requested by the external auditor and advise the Corporation before they are signed

- 7.23 • to recommend the annual financial statements, including Regularity Audit opinion, to the Corporation for approval

- 7.24 • to review and recommend changes to the Financial Regulations to the Corporation for approval. (Financial Procedures to be approved by the Senior Leadership Team and reported to the Audit Committee)

8. Reporting Procedures

- 8.1 The Clerk to the Audit Committee shall circulate minutes of the meetings of the Audit Committee to all Audit Committee Members.

- 8.2** Where the Audit Committee has deemed an item to be confidential (for example, when the Audit Committee considers sensitive issues or named individuals) the excluded items shall be kept as confidential documents by the Clerk and circulated in accordance with the Corporation Code of Conduct guidelines on confidentiality.
- 8.3** Audit Committee Minutes shall be included in Corporation papers and reported upon at Corporation meetings.

Approved by the Corporation on: 4 December 2018

Review frequency: Annual

Sue Frost
Clerk to the Corporation