

# Terms of reference for the audit committee

Guidance note

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020 7612 7029 | [info@sportsgovernanceacademy.org.uk](mailto:info@sportsgovernanceacademy.org.uk)

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## Introduction

This sample tool proposes model terms of reference for the audit committee of an organisation seeking to comply with the Code for Sports Governance and also reflects the UK Corporate Governance Code and FRC Guidance on Audit Committees (FRC Guidance), published in April 2016.

The terms of reference are intended as a guide for organisations to adapt to their needs. In particular, there are a number of responsibilities that may be carried out by the audit committee which, alternatively, may be carried out by another board committee or at board level. The list of duties proposed below is based on existing good practice from a number of sources. Some organisations may wish to add to this list and some may need to modify it in other ways. The audit committee should take the initiative in deciding the key matters it should consider and what information and assurance it needs to carry out its functions.

All board committees should be considered together when allocating responsibilities to the committees. It is important to recognise the links and overlap between the responsibilities of board committees and consequently the need for each board committee to have full knowledge of the deliberations of other committees through reports to the board and, if possible, by appointing at least one member of a committee to each of the other committees.

## Notes on the terms of reference

The FRC Guidance is designed to assist boards in making suitable arrangements for their audit committees and provides recommendations on the conduct of the audit committee's relationship with the board, executive management and internal and external auditors. Audit committees are not required to follow the FRC Guidance but it provides a useful framework when implementing the provisions of the Code for Sports Governance. It recognises that audit committee arrangements need to be proportionate to the task, and will vary according to the size, complexity and risk profile of the organisation.

The Code for Sports Governance states that the audit committee should comprise a minimum of two, and preferably three, independent non-executive directors. The board should satisfy itself that at least one member of the committee has recent and relevant financial experience and one has risk expertise who can bring knowledge of effective risk management and internal control. The audit committee as a whole should have competence relevant to the sector in which the organisation operates.

The audit committee should be provided with sufficient resources to undertake its duties. The company secretary/governance lead is responsible for helping the board and its committees to function effectively and they (or their nominee) should act as secretary to the committee. The committee should have access to the services of the company secretariat on all audit committee matters including assisting the chair in planning the committee's work, drawing up meeting agendas, maintenance of minutes, drafting of material about its activities for the annual report, collection and distribution of information and provision of any necessary practical support. The company secretary/governance lead should ensure that the audit committee receives information and papers in a timely manner to enable full and proper consideration to be given to the issues.

The frequency with which the audit committee needs to meet will vary depending on the nature, scale and complexity of the business of an organisation and external regulatory requirements, which may change from time to time. The FRC Guidance states that it is for the audit committee chair, in consultation with the company secretary, to decide the

frequency of meetings. There should be as many meetings as the audit committee's role and responsibilities require and the FRC Guidance recommends there should be no fewer than three meetings each year. When scheduling meetings, there should be a sufficient interval between audit committee meetings and board meetings to allow for work arising from the audit committee to be carried out and reported to the board.

## Model terms of reference

**Note:** square brackets contain recommendations which are in line with best practice but which may need to be changed to suit the circumstances of the particular organisation, or excluded where not relevant to the organisation or if the organisation has a separate risk committee.

### 1. Membership

- 1.1 The committee shall comprise at least [*two*] members, all of whom shall be independent non-executive directors. [*The committee shall include at least one member of the risk committee.*] At least one member shall have recent and relevant financial experience, and one member shall have risk expertise and knowledge of effective risk management and internal control. The committee as a whole shall have competence relevant to the sector in which the organisation operates. The chair of the board shall not be a member of the committee.
- 1.2 Members of the committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chair of the audit committee. Appointments shall be for a period of up to three years which may be extended for up to two additional three-year periods, provided members continue to be independent.
- 1.3 Only members of the committee have the right to attend committee meetings. However, the finance director, [*head of internal audit*] and external audit lead partner will be invited to attend meetings of the committee on a regular basis and other individuals may be invited to attend all or part of any meeting as and when appropriate.
- 1.4 The committee shall be chaired by an independent non-executive director, appointed by the board. In the absence of the committee chair and/or an appointed deputy at a committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

### 2. Secretary

The company secretary/governance lead, or their nominee, shall act as the secretary of the committee and will ensure that the committee receives information and papers in a timely manner to enable full and proper consideration to be given to issues.

### 3. Quorum

The quorum necessary for the transaction of business shall be [*two*] members.

### 4. Frequency of meetings

- 4.1 The committee shall meet at least [*three*] times a year at appropriate intervals in the financial reporting and audit cycle and otherwise as required.
- 4.2 Outside of the formal meeting programme, the committee chair will maintain a dialogue with key individuals involved in the organisation's governance, including the board chair, the chief executive, the finance director, the external audit lead partner [*and the head of internal audit*].

## 5. Notice of meetings

- 5.1 Meetings of the committee shall be called by the secretary of the committee at the request of the committee chair or any of its members, or at the request of the external audit lead partner [*or head of internal audit*] if they consider it necessary.
- 5.2 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the committee and any other person required to attend no later than [*five*] working days before the date of the meeting. Supporting papers shall be sent to committee members and to other attendees, as appropriate, at the same time.
- 5.3 If it is anticipated that committee members participating in a meeting will not be in the same place, the notice of the meeting must indicate how it is proposed that they should communicate with each other during the meeting. Members of the committee participate in a meeting when they can communicate to other members any information or opinions they have on a particular item of business. This may be done by telephone, video conference or other virtual means.

## 6. Minutes of meetings

- 6.1 The secretary shall minute the proceedings and decisions of all committee meetings, including recording the names of those present and in attendance.
- 6.2 Draft minutes of committee meetings shall be circulated to all members of the committee. Once approved, minutes should be circulated to all other members of the board and the company secretary/governance lead unless, exceptionally, it would be inappropriate to do so.

## 7. Engagement with [*shareholders/members*]

The committee chair should attend the annual general meeting to answer any [*shareholder/member*] questions on the committee's activities. In addition the committee chair should seek engagement with [*shareholders/members*] on significant matters related to the committee's areas of responsibility.

## 8. Duties

The committee should have oversight of the [*organisation/group*] as a whole and, unless required otherwise by regulation, carry out the duties below for the parent company, major subsidiary undertakings and the group as a whole, as appropriate.

- 8.1 Financial reporting
  - 8.1.1 The committee shall monitor the integrity of the financial statements of the company, including its annual and half-yearly reports, preliminary announcements and any other formal statements relating to its financial performance, and review and report to the board on significant financial reporting issues and judgements which those statements contain having regard to matters communicated to it by the auditor.
  - 8.1.2 In particular, the committee shall review and challenge where necessary
    - 8.1.2.1 the application of significant accounting policies and any changes to them
    - 8.1.2.2 the methods used to account for significant or unusual transactions where different approaches are possible
    - 8.1.2.3 whether the company has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements
    - 8.1.2.4 the clarity and completeness of disclosures in the financial statements and the context in which statements are made
    - 8.1.2.5 all material information presented with the financial statements, including the strategic report and the corporate governance statements relating to the audit and to risk management.

- 8.1.3 The committee shall review any other statements requiring board approval which contain financial information first, where to carry out a review prior to board approval would be practicable and consistent with any prompt reporting requirements under any law or regulation.
- 8.1.4 Where the committee is not satisfied with any aspect of the proposed financial reporting by the company, it shall report its views to the board.
- 8.2 Narrative reporting  
Where requested by the board, the committee should review the content of the annual report and accounts and advise the board on whether, taken as a whole, it is fair, balanced and understandable and provides the information necessary for [shareholders/members] to assess the organisation's performance, business model and strategy and whether it informs the board's statement in the annual report on these matters that is required under the Code.
- 8.3 Internal controls and risk management systems  
The committee shall
- 8.3.1 keep under review the organisation's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems
- 8.3.2 review and approve the statements to be included in the annual report concerning internal control, risk management, including the assessment of principal risks and emerging risks, and the viability statement.
- 8.4 Compliance, speaking-up and fraud  
The committee shall
- 8.4.1 review the adequacy and security of the organisation's arrangements for its employees, volunteers, contractors and external parties to raise concerns, in confidence, about possible wrongdoing in financial reporting or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action
- 8.4.2 review the organisation's procedures for detecting fraud
- 8.4.3 review the organisation's systems and controls for the prevention of bribery and receive reports on non-compliance
- 8.4.4 [review regular reports from the Money Laundering Reporting Officer and the adequacy and effectiveness of the organisation's anti-money laundering systems and controls]; and
- 8.4.5 [review regular reports from the Compliance Officer and keep under review the adequacy and effectiveness of the organisation's compliance function].
- 8.5 Internal audit [*while all organisations should maintain an appropriate degree of the functions of internal audit, some of the following terms may not be applicable to all organisations*]  
The committee shall
- 8.5.1 approve the appointment or termination of appointment of the head of internal audit
- 8.5.2 review and approve the role and mandate of internal audit, monitor and review the effectiveness of its work, and annually approve the internal audit charter ensuring it is appropriate for the current needs of the organisation
- 8.5.3 review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business, and receive regular reports on work carried out
- 8.5.4 ensure internal audit has unrestricted scope, the necessary resources and access to information to enable it to fulfil its mandate, ensure there is open communication between different functions and that the internal audit function evaluates the effectiveness of these functions as part of its internal audit plan,

- and ensure that the internal audit function is equipped to perform in accordance with appropriate professional standards for internal auditors
- 8.5.5 ensure the internal auditor has direct access to the board chair and to the committee chair, providing independence from the executive and accountability to the committee
  - 8.5.6 carry out an annual assessment of the effectiveness of the internal audit function and as part of this assessment
    - 8.5.6.1 meet with the head of internal audit without the presence of management to discuss the effectiveness of the function
    - 8.5.6.2 review and assess the annual internal audit work plan
    - 8.5.6.3 receive a report on the results of the internal auditor's work
    - 8.5.6.4 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business
    - 8.5.6.5 review the actions taken by management to implement the recommendations of internal audit and to support the effective working of the internal audit function
  - 8.5.7 monitor and assess the role and effectiveness of the internal audit function in the overall context of the organisation's risk management system and the work of compliance, finance and the external auditor
  - 8.5.8 consider whether an independent, third party review of processes is appropriate.
- 8.6 External Audit
- The committee shall
- 8.6.1 consider and make recommendations to the board, to be put to [shareholders/members] for approval at the AGM, in relation to the appointment, re-appointment and removal of the company's external auditor
  - 8.6.2 develop and oversee the selection procedure for the appointment of the audit firm in accordance with applicable Code and regulatory requirements, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process
  - 8.6.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required
  - 8.6.4 oversee the relationship with the external auditor. In this context the committee shall
    - 8.6.4.1 approve their remuneration, including both fees for audit and non-audit services, and ensure that the level of fees is appropriate to enable an effective and high-quality audit to be conducted
    - 8.6.4.2 approve their terms of engagement, including any engagement letter issued at the start of each audit and the scope of the audit
  - 8.6.5 assess annually the external auditor's independence and objectivity, taking into account relevant law, regulation, the Ethical Standard and other professional requirements and the relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats including the provision of any non-audit services
  - 8.6.6 satisfy itself that there are no relationships between the auditor and the organisation (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity
  - 8.6.7 agree with the board a policy on the employment of former employees of the organisation's auditor, taking into account the Ethical Standard and legal requirements, and monitor the application of this policy
  - 8.6.8 monitor the auditor's processes for maintaining independence, its compliance with relevant law, regulation, other professional requirements and the Ethical Standard, including the guidance on the rotation of audit partner and staff



- 8.6.9 monitor the level of fees paid by the organisation to the external auditor compared to the overall fee income of the firm, office and partner and assess these in the context of relevant legal, professional and regulatory requirements, guidance and the Ethical Standard
- 8.6.10 assess annually the qualifications, expertise and resources, and independence of the external auditor and the effectiveness of the external audit process, which shall include a report from the external auditor on their own internal quality procedures
- 8.6.11 seek to ensure coordination of the external audit with the activities of the internal audit function
- 8.6.12 evaluate the risks to the quality and effectiveness of the financial reporting process in the light of the external auditor's communications with the committee
- 8.6.13 develop and recommend to the board the organisation's formal policy on the provision of non-audit services by the auditor, including prior approval of non-audit services by the committee and specifying the types of non-audit service to be preapproved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements. The policy should include consideration of the following matters
  - 8.6.13.1 threats to the independence and objectivity of the external auditor and any safeguards in place
  - 8.6.13.2 the nature of the non-audit services
  - 8.6.13.3 whether the external audit firm is the most suitable supplier of the non-audit service
  - 8.6.13.4 the fees for the non-audit services, both individually and in aggregate, relative to the audit fee
  - 8.6.13.5 the criteria governing compensation.
- 8.6.14 meet regularly with the external auditor (including once at the planning stage before the audit and once after the audit at the reporting stage) and, at least once a year, meet with the external auditor without management being present, to discuss the auditor's remit and any issues arising from the audit
- 8.6.15 discuss with the external auditor the factors that could affect audit quality and review and approve the annual audit plan, ensuring it is consistent with the scope of the audit engagement, having regard to the seniority, expertise and experience of the audit team
- 8.6.16 review the findings of the audit with the external auditor. This shall include but not be limited to, the following
  - 8.6.16.1 a discussion of any major issues which arose during the audit
  - 8.6.16.2 the auditor's explanation of how the risks to audit quality were addressed
  - 8.6.16.3 key accounting and audit judgements
  - 8.6.16.4 the auditor's view of their interactions with senior management
  - 8.6.16.5 levels of errors identified during the audit
- 8.6.17 review any representation letter/s requested by the external auditor before it is/they are signed by management
- 8.6.18 review the management letter and management's response to the auditor's findings and recommendations
- 8.6.19 review the effectiveness of the audit process, including an assessment of the quality of the audit, the handling of key judgements by the auditor, and the auditor's response to questions from the committee

## **9. Reporting responsibilities**

- 9.1 The committee chair shall report formally to the board on its proceedings after each



meeting on all matters within its duties and responsibilities and shall also formally report to the board on how it has discharged its responsibilities. This report shall include

- 9.1.1 the significant issues that it considered in relation to the financial statements (required under paragraph 8.1.1) and how these were addressed
- 9.1.2 its assessment of the effectiveness of the external audit process (required under paragraph 8.6.10), the approach taken to the appointment or reappointment of the external auditor, length of tenure of audit firm, when a tender was last conducted and advance notice of any re-tendering plans
- 9.1.3 any other issues on which the board has requested the committee's opinion
- 9.2 The committee shall make whatever recommendations to the board it deems appropriate on any area within its remit where action or improvement is needed.
- 9.3 The committee shall compile a report on its activities to be included in the annual report. The report should describe the work of the audit committee, including
  - 9.3.1 the significant issues that the committee considered in relation to the financial statements and how these issues were addressed
  - 9.3.2 an explanation of how the committee has assessed the independence and effectiveness of the external audit process and the approach taken to the appointment or re-appointment of the external auditor, information on the length of tenure of the current audit firm, when a tender was last conducted and advance notice of any re-tendering plans
  - 9.3.3 an explanation of how auditor independence and objectivity are safeguarded if the external auditor provides non-audit services, having regard to matters communicated to it by the auditor and all other information requirements that may be set in guidance.
- 9.4 In compiling the reports referred to in 9.1 and 9.3, the committee should exercise judgement in deciding which of the issues it considers in relation to the financial statements are significant, but should include at least those matters that have informed the board's assessment of whether the company is a going concern and the inputs to the board's viability statement. The report to [*shareholders/members*] need not repeat information disclosed elsewhere in the annual report and accounts but could provide cross-references to that information.

## **10. Other matters**

The committee shall

- 10.1 Have access to sufficient resources in order to carry out its duties, including access to the company secretariat for advice and assistance as required.
- 10.2 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.
- 10.3 Give due consideration to all relevant laws and regulations, the provisions of the Code and published guidance, and any other applicable rules, as appropriate.
- 10.4 Be responsible for oversight of the coordination of the internal and external auditors.
- 10.5 Oversee any investigation of activities which are within its terms of reference.
- 10.6 Work and liaise as necessary with all other board committees ensuring interaction between committees and with the board is reviewed regularly, taking particular account of the impact of risk management and internal controls being delegated to different committees.
- 10.7 Ensure that a periodic evaluation of the committee's performance is carried out.
- 10.8 At least annually, review its constitution and terms of reference to ensure it is operating at maximum effectiveness and recommend any changes it considers necessary to the board for approval.
- 10.9 Observe the values of the organisation and adhere to the Code of Conduct, meeting behaviour guidelines, disciplinary policy and other documents as appropriate.

## 11. Authority

The committee is authorised to

- 11.1 Seek any information it requires from any employee of the organisation in order to perform its duties.
- 11.2 Obtain, at the organisation's expense, independent legal, accounting or other professional advice on any matter if it believes it necessary to do so.
- 11.3 Call any employee to be questioned at a meeting of the committee as and when required.
- 11.4 Have the right to publish in the annual report details of any issues that cannot be resolved between the committee and the board. If the board has not accepted the committee's recommendation on the external auditor appointment, re-appointment or removal, the annual report should include a statement explaining the committee's recommendation and the reasons why the board has taken a different position.

Date of approval

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Date of next review

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