

14. The work of an audit committee

Introduction and aim

The audit committee plays a key role in offering assurance to the governing body with regard to internal controls, risk management and governance. Over time the remit of the audit committees has tended to become broader. As a result, there is a need for the committee to have members with a range of expertise and skills, rather than only a background in finance. To discharge its responsibilities, the committee relies upon the work of internal and external auditors.

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1. Establishing an audit committee

To comply with either the Committee of University's Chairs (CUC), [The Higher Education Code of Governance¹](#) or the [Scottish Code of Good Higher Education Governance²](#), higher education providers are required to establish an audit committee.

2. Provision of delegated powers

The audit committee operates under delegated powers from, and make reports to, the full governing body. The duties, membership and quorum of the committee should be set-out in its terms of reference. The terms of reference should be regularly reviewed, usually annually, to ensure they remain current.³

3. Function of the audit committee

The audit committee is expected to scrutinise whether the provider is meeting its legal and regulatory requirements and the degree to which the governing body can be assured that it is compliant. In pursuit of this aim the committee will seek to examine and establish whether the provider's systems and processes of internal control, risk management and governance are effective. National public funding bodies also require assurance that the provider is using public funds for their intended purposes.



4. Specific duties

An audit committee has a range of duties. These typically include:

- To agree the nature and scope of the external audit with the external auditors.
- To agree the programme of work of the internal audit service or provider.
- To review the performance and effectiveness of the external and internal auditors annually, making recommendations to the governing body as to their reappointment.
- To consider the provider's annual financial statements, including the audit opinion and statement of internal control.
- To ensure that satisfactory arrangements are in place to promote economy, efficiency and effectiveness.
- To keep the provider's approach to, and policies on, risk management under review, regularly considering the effectiveness of the provider's control framework and the assessment of risk.
- To keep the quality and accuracy of data submitted on behalf of the provider to external agencies under review.
- To exercise oversight with regard to the provider's compliance with the General Data Protection Regulation (GDPR).
- To oversee the provider's policies on fraud, money-laundering, misappropriation and whistle-blowing.

The audit committee may also have responsibility for seeking assurance on matters of academic governance and quality.

5. Membership of the committee

In guidance on the work of audit committees, the [Financial Reporting Council \(FRC\)](#) notes, 'committee members should bring an independent mind-set to their role'⁴. The composition of an audit committee should be based on independent members who have the necessary knowledge, skills and expertise to assist the committee in discharging its duties. The audit committees may also have the power to co-opt individuals onto the committee. This enables access to knowledge, skills and expertise, which may not be available from the membership of the governing body. A disadvantage of such arrangements is that the individual will have a more limited understanding of the provider and its work as they do not attend meetings of the full governing body.

6. Restrictions on committee membership

To underpin the independence of the audit committee there are a number of restrictions placed on its membership.

Firstly, no member of the committee should be involved in the provider's executive management and decision-making. This precludes, for example, the Head of the provider being a member of the committee. Secondly, to avoid the potential risk of conflicts of interest, members of the audit committee should not be members of the finance (or equivalent) committee, or vice versa. Thirdly, the Chair of the governing body should not be a member of audit committee.

7. Individuals 'in attendance'

The restrictions on membership do not preclude members of the executive team being in attendance or invited, at the request of the committee's Chair, to attend meetings of the committee for a specific matter. Further, the provider's external and internal auditors will normally be expected to be in attendance for some, if not all, of the committee's meetings. To ensure they can raise any issues of concern, the audit committee will typically hold a private meeting with the external and internal auditors at least once a year. Only members of the committee and the auditors will be present at this meeting.

8. Size of membership

The size of the membership of audit committees varies. Historically, the size of audit committee has often been small, with, say, a membership of three. More recently, a widening remit has suggested the need for additional skills to be present on the committee, with a recent study suggesting a minimum membership of five⁵.

9. Composition and skills

To understand the requirements and policies underlying the preparation of the provider's financial statements and the auditors' opinion, at least one member of the committee is expected to have a background in finance, accounting or audit. However, given its widening remit, the committee should also be able to understand and question the accuracy and reliability of non-financial data submitted to external agencies – for example, the [Higher Education Statistical Agency \(HESA\)](#). Further, some providers have asked their audit committees, on the behalf of the governing body, to assume the responsibility of scrutinizing and providing assurance as to academic governance. Reflecting these responsibilities, a recent review of the workings of audit committees suggested the inclusion of a 'representative from the academic community of sufficient standing to provide a direct skillset applicable to the oversight of teaching, academic leadership, and research processes'⁶.



10. Officers of the committee

The governing body will appoint the Chair of the audit committee, and the Clerk will usually also be the Clerk or Secretary to the governing body or another member of the governance team. A Deputy Chair of the committee may be appointed to carry out the duties of the committee Chair in their absence.

11. Committee meetings

Meetings of the audit committee will normally be linked to the provider's annual cycle of the business. The number of meetings will vary according to the needs of the provider and the associated volume of work. Most committees will meet three or four times a year. In instances where a finance committee (or equivalent) has also been established, there may be a joint audit and finance committee meeting during the autumn to examine and approve the annual report and financial statements.

12. External audit

The primary role of the external auditor is to examine the provider's record keeping and control systems, and to form an opinion about, and report on:

- Whether the annual financial statements give a true and fair view of the provider's financial outcomes for the year.
- Have been prepared in accordance with the relevant accounting standards and accounts direction issued by the relevant national funding body.
- Whether public funding has been properly applied in the ways required by a relevant national funding body.

13. The external audit plan

Prior to the preparation of the annual financial statements and the start of the external audit, the audit committee will examine and discuss with the external auditor their draft external audit plan and strategy. Once the plan and strategy is agreed by the committee, it will form the basis of the external audit.

14. Findings from the external audit

Following completion of the audit, the committee will review the provider's draft financial statements and receive from the external auditors' the opinion they anticipate making as to the validity of the financial statements. This is formally reported to the provider by way of the external auditor's report, which sets out any significant accounting and control issues arising from the audit. The audit committee will also review a draft of the management representation letter,

which confirms the accuracy of the financial data that the provider has submitted to the auditors to enable them to make an assessment. Once agreed, the committee will recommend approval of the letter to the governing body and its signature by the Chair of council.

15. Reappointment of the external auditors

The external auditors are required to be formally re-appointed each year by the governing body. This will be based on a recommendation made by the audit committee.

16. Internal audit

Internal audit provides independent assurance about the internal systems of control, risk management, value for money and data quality. The service is delivered either by an internal function of the provider or by an external firm. The internal audit plan, which should be agreed by the committee, details the areas of the provider's operation that the internal auditors will examine in order to assess the adequacy and effectiveness of the provider's risk management, control and governance arrangements over the next 12-month period. During the year, the auditors will report their findings to management and the audit committee, giving an internal audit opinion as to the current arrangements for each area, and, where appropriate, making recommendations for improvement. At the end of each year, the internal auditors will produce an annual report of their work. This is submitted to the governing body and shared with the provider's funding body.

17. Separation of audit services

One company is not allowed to provide both a provider's external and internal audit services. The separation of the audit services recognises that the external auditor, when reviewing the provider's financial outcomes for the year, will draw upon the work of the internal auditor to inform their judgments, and these should be independently and separately determined. An external provider of either audit service should be subject to periodic market testing. This is normally undertaken by inviting all interested suppliers to tender to provide the service.



18. Annual report

The audit committee is expected to prepare and submit an annual report detailing how it has discharged its responsibilities at the end of each financial year. The report is addressed to the governing body and the provider's designated accounting officer, and explains how the committee has fulfilled its duties and assessed the adequacy and effectiveness of the provider's arrangements in respect of:

- Risk management, control and governance.
- Economy, efficiency and effectiveness (value-for-money).
- Management and quality assurance of data submitted to HESA and to the provider's funding bodies.

The report should be submitted to the governing body prior to it agreeing the provider's annual report and financial statements.

19. Potential concerns

The effectiveness of the audit committee may be reduced by:

- The committee's membership not containing an appropriate mix of individuals with the necessary knowledge, skills and expertise.
- Members of the committee being unwilling to question or challenge the judgements offered by members of the executive.
- Internal audit not being directed at the areas of greatest risk, or failing to examine the risks in sufficient depth. As a result, the committee receives false assurances as to the effectiveness of the systems of internal management and control.
- The recommendations of the internal audit not being acted upon, or addressed too slowly.

20. Conclusions

An audit committee plays a central role in providing assurance to the governing body on matters relating to internal control, risk management, value for money and governance. The committee forms a vital part of the provider's system of governance.

21. Questions to consider

- Q Does the audit committee have clear terms of reference and are these reviewed annually?
- Q Does the size and composition of the audit committee allow it to fulfil its remit?
- Q Is the appointment of the auditors periodically subject to market testing?
- Q Does the committee annually review and agree the internal audit plan?
- Q Are key areas of risk regularly reviewed by internal audit? Are the reviews thorough?
- Q Does the committee meet, at least annually, with the auditors without members of the executive being present?

End notes and further reading

- ¹ Revised June 2018, p.16, para 3.7
- ² 2017 edition, p.23.
- ³ For example, new legislation may increase the responsibilities placed on the provider, and may in turn lead to the remit of the committee being extended to cover the new legislation. In recent years, for example, this has arisen following new legislation with regard to fraud and anti-money laundering.
- ⁴ [Guidance on Audit Committees](#), Financial Reporting Council, April 2016, p.3.
- ⁵ University of Southampton, [The role and effectiveness of audit committees in UK higher education institutions](#). This is the report of the results of a small development project funded by the Leadership Foundation for Higher Education (now Advance HE), October 2013.
- ⁶ University of Southampton, Ibid.

