

# Audit and Finance Committee: terms of reference

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Approved by the Board of Trustees of the British Council on 9 December 2020

## Constitution

1. The Board of Trustees ('the Board') of the British Council has established a Committee of the Board to be known as the Audit and Finance Committee ('the Committee').

## Membership and attendees

2. Committee members shall be appointed by the Board.
3. The Committee shall comprise at least three members of whom at least two (including the Chair) shall be Trustees and at least one should also be a member of the Risk Committee.
4. If the person appointed by the Board as Chair of the Committee is unable to attend a meeting, he/she may nominate another Trustee on the Committee to chair that meeting.
5. At least two members shall have recent and relevant financial experience, ideally with professional qualifications from one of the professional accountancy bodies.
6. The Chairman of the Board shall not be a member of the Committee.
7. Subject to the Board's approval of the appointments, the Committee may co-opt additional independent members to provide specialist skills, knowledge and experience. Co-opted members may serve a term of up to three years, renewable once.
8. Committee members shall be selected such that the Committee as a whole has a broad range of skills and experience commensurate to its responsibilities.
9. Committee members will be independent of management and free from any factor which might interfere with the exercise of independent judgement.
10. Where possible without compromise to the balance of skills, the composition of the Committee should be diverse.
11. Committee meetings will normally be attended by the Chief Executive, Chief Financial Officer and Director Internal Audit and Risk as well as representatives of the external auditors.
12. The Committee may ask any other officials of the organisation to attend to assist it with its discussions on any particular matter.
13. The Committee may ask any or all of those who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters.

## Secretary

14. The Committee's secretary shall be the Secretary to the Board or another member of British Council staff as agreed by the Secretary to the Board and the Chair of the Committee.

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## Quorum and frequency of meetings

15. The quorum will be two members of whom at least one must be a Trustee.
16. The Committee will meet regularly and normally four times a year. The Chair may call an additional meeting at any time.

## Conflicts of interest

17. Conflicts of interest of members, including any co-opted members, shall be declared and managed in line with the procedure for Trustees set out in clauses 13 to 17 of the Royal Charter.

## Minutes of meetings

18. The secretary shall take minutes of all Committee meetings.
19. Draft minutes shall be circulated promptly to the Chair for initial review prior to circulation as a draft to the Board. The minutes shall be submitted for approval at the next meeting of the Committee.
20. Once approved and signed the minutes shall be retained as part of the organisation's records.

## Role and responsibilities

21. On behalf of the Board the Committee maintains an overview of the British Council's financial risk management and governance processes, ensuring that the system of internal financial control is satisfactory to deliver regulatory compliance, financial probity and value for money. It also reviews and challenges financial plans and performance, including investment, in the interest of the long term financial viability of the British Council.
22. The Committee is not responsible for maintaining the organisation's financial risk and control environment, but holds the executive to account for this by reviewing the comprehensiveness of assurances established to meet the Board's and Chief Executive's assurance needs.
23. The Committee's responsibilities shall cover the British Council group as a whole and, unless required otherwise by regulation, carry out the duties below for the British Council as parent, its major subsidiary undertakings and the group as a whole.
24. The main roles and responsibilities of the Committee include:
  - a. monitoring the integrity of the organisation's financial statements and reviewing significant financial reporting judgements contained in them. In particular, the Committee shall review and challenge where necessary:
    - i. the application of significant accounting policies and any changes to them;
    - ii. the methods used to account for significant or unusual transactions where different approaches are possible;
    - iii. whether the organisation has adopted appropriate accounting policies and made appropriate estimates and judgements, taking into account the external auditor's views on the financial statements;
  - b. providing advice (where requested by the Board) on whether the annual report and accounts, taken as a whole, provides a fair, balanced and understandable review of the charity's structure, legal purposes, objectives, activities, financial performance and

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financial position;

- c. scrutinising financial plans, advising the Board on their adoption, and monitoring financial performance against approved plans, including:
  - i. overseeing the development of financial plans;
  - ii. monitoring the financial position and future prospects of the British Council group to ensure that it can meet its commitments and strategic objectives;
  - iii. keeping under review the long-term financial sustainability of the British Council and its subsidiaries;
  - iv. considering the budgetary impact of proposed variations to activities through restructuring, acquisition/disposal or other significant changes;
  
- d. reviewing the organisation's internal financial controls and financial risk management including:
  - i. consideration of internal and external audit reports, findings and recommendations in relation to financial controls and financial risk management;
  - ii. receiving periodic reports from management on their assessment of the organisation's financial controls and on actions to increase the efficiency and effectiveness of the organisation's financial controls;
  - iii. reviewing reports on actual or suspected fraud, bribery, financing of terrorism or other financial crime;
  - iv. reviewing the effectiveness of the group's procedures: for preventing and detecting actual or suspected fraud, bribery, financing of terrorism or other financial crime; and for its employees and contractors to raise concerns, in confidence, about actual or suspected financial wrongdoing;
  - v. in line with the British Council's procedure for reporting serious incidents to the Charity Commission for England and Wales ('the Charity Commission'), and linked to the disclosure of losses and special payments in the annual accounts, reviewing relevant categories of serious incident before submission to Charity Commission and reviewing annually the organisation's register of losses and special payments;
  - vi. reviewing management's procedures and controls to ensure value for money;
  - vii. periodically reviewing and advising the Board on the adoption of policies relating to tax, treasury and banking and investment;
  
- e. monitoring and reviewing the effectiveness of the company's internal audit function, including:
  - i. approving the appointment or termination of the Director Internal Audit and Risk and of any significant third party contracted in this field;
  - ii. approving internal audit's charter and annual work plan, ensuring the plan takes account of the British Council's risk analysis;
  - iii. ensuring internal audit has the access and resources it requires to carry out its work effectively;
  - iv. monitoring and assessing the role and effectiveness of the internal audit function;
  - v. ensuring internal audit has access to both the Chairman of the Board and the Chair of the Committee;
  - vi. meeting at least once a year with the Director Internal Audit and Risk without management present;
  
- f. monitoring and reviewing the effectiveness and independence of the British Council charity and group's external audit arrangements including:

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- i. overseeing management's appointment, reappointment and removal of external auditors and, if an auditor resigns, investigating the issues leading to that decision;
  - ii. approving the remuneration and terms of engagement of external auditors of the charity and of the group's subsidiaries;
  - iii. reviewing and monitoring the independence and objectivity of the external auditors;
  - iv. reviewing the effectiveness of the external audit process, taking into consideration relevant professional and regulatory requirements;
  - v. seeking to ensure co-ordination of external and internal audit activities;
  - vi. meeting at least once a year with the external auditors without management present to discuss the auditors' remit and any issues arising from the audits;
  - vii. reviewing external audit plans and findings and management's response to the auditor's findings and recommendations; and
  - viii. reviewing and approving the policy on the engagement of external auditors to supply non-audit services.

## Information requirements

25. For each meeting the Committee will normally be provided with:

- a. the latest management accounts;
- b. a progress report from the Head of Internal Audit summarising:
  - i. work performed (and a comparison with work planned);
  - ii. key issues emerging from the work of internal audit;
  - iii. management's response to audit recommendations;
  - iv. changes to the agreed internal audit plan;
  - v. any resourcing issues affecting the delivery of the objectives of internal audit; and
- c. a progress report (written or verbal) from the external audit representatives summarising work done and emerging findings (this may include, where relevant to the organisation, aspects of the wider work carried out by the NAO, for example, Value for Money reports and good practice findings).

26. As and when appropriate the Committee will also be provided with:

- a. proposals for the internal audit charter;
- b. the internal audit plan;
- c. the Director Internal Audit and Risk's annual opinion and report;
- d. quality assurance reports on the internal audit function;
- e. financial plans and quarterly forecasts
- f. the draft accounts of the organisation;
- g. the draft Governance Statement;
- h. a report on any changes to accounting policies;
- i. the external auditor's management letters;
- j. a report on any proposals to tender for audit functions; and
- k. a report on co-operation between internal and external audit.

## Access

27. The Director Internal Audit and Risk and representatives of the external auditors will have free and confidential access to the Chair of the Committee.

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## **Authority**

28. The Committee is a non-executive Committee and has no powers other than those specifically delegated in these terms of reference. The Committee is authorised:
- a. to seek any information it requires from any employee of the British Council group in order to perform its duties,
  - b. to call any employee to be questioned at a meeting as and when required,
  - c. to hold exit interviews with the Director Internal Audit and Risk and the Chief Financial Officer,
  - d. to have direct access to the external auditors, and
  - e. to have full access to any third party advisor it may request.

## **Reporting**

29. The Chair of the Committee, or in their absence another Trustee member, shall report to the Board at the next Board meeting.
30. The Committee shall formally report on its work to the Board once a year. This report shall be timed to support the finalisation of the accounts and the Governance Statement, summarising the Committee's conclusions from the work it has done during the year.
31. The Committee's effectiveness shall be considered as part of the externally facilitated Board effectiveness reviews.
32. The Chair of the Committee has direct access to report to the Chairman of the Board as required.

## **Review of the terms of reference**

33. The Committee shall review its terms of reference annually and submit any proposed changes to the Board for approval.