

Guidance note

Terms of reference for the audit committee

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Terms of reference for the audit committee

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A Introduction

This guidance note proposes model terms of reference for the audit committee of a company seeking to comply fully with the requirements of the UK Corporate Governance Code. It draws on the experience of company secretaries and is based on best practice as carried out in some of the UK's largest listed companies.

It reflects the UK Corporate Governance Code as revised in April 2016 (the 'Code') and the updated FRC Guidance on Audit Committees (the 'FRC Guidance'), also published in April 2016. The Code is applicable for financial periods beginning on or after 17 June 2016. Copies of the Code and the FRC Guidance are available at www.frc.org.uk

The model terms of reference are intended as a guide for companies to adapt to their needs. In particular:

- Companies with additional primary listing(s) may need to amend the terms of reference in light of additional requirements in the relevant country, in particular the US Sarbanes-Oxley Act 2002.
- Some responsibilities that are relevant to certain sectors only are shown in square brackets.
- 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 and these have been mentioned in footnotes.

The guidance notes on terms of reference for all board committees should be read 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 one audit committee member to the remuneration committee and one to a separate risk committee, if there is one.

Acknowledgement

This guidance note has been prepared with the assistance of a working group comprising ICSA members and Slaughter and May.

If you have any feedback on the content of these resources, or additional questions that you'd like to discuss, please contact the ICSA information centre: **020 7612 7035** | informationcentre@icsa.org.uk

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B The Code

The Code states that:

'The board should establish formal and transparent arrangements for considering how they should apply the corporate reporting and risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors.'¹

It goes on to clarify that, in practical terms, this means that: 'The board should establish an audit committee ...'²

The Code recommends that the main role and responsibilities of the audit committee should be set out in written terms of reference, tailored to the particular circumstances of the company,³ and be made available (e.g. by including them on a website maintained by or on behalf of the company).⁴

There is a requirement in the Code for the audit committee to 'report to the board on how it has discharged its responsibilities'.⁵ In addition, the Code recommends that the work of the committee in discharging its responsibilities should be described in a separate section of the annual report.⁶ The annual report should also include a statement from the audit committee explaining its recommendation in relation to the appointment, reappointment or removal of the external auditor, wherever the board has not accepted that recommendation.⁷ The audit committee chairman should attend the annual general meeting and be available to answer questions.⁸

The provisions of the Code⁹ ensure that companies are required not only to go through a formal process of considering their internal audit and control procedures and evaluating their relationship with their external auditor, but to be seen to do so in a fair and thorough manner. As part of this process, it is essential that the audit committee is properly constituted with a clear remit and identified authority, and that it has processes in place to enable directors serving on audit committees to perform their role.

1 Section C of the Code: Main principle C.3
2 Code provision C.3.1. and Financial Conduct Authority (FCA)
Disclosure and Transparency Rules (DTRs) 7.1.1R
3 Code provision C.3.2. and FRC Guidance, paragraph 10
4 Code provision C.3.3. (also see footnote 7 to the Code)

5 Code provision C.3.2.
6 Code provision C.3.8.
7 Code provision C.3.7.
8 Code provision E.2.3. and FRC Guidance, paragraph 85
9 Code Section C

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C Notes on the terms of reference

The FRC Guidance is designed to assist company 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. 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 company.¹⁰

As regards the composition of the committee, it is best practice that it comprises a minimum of three independent non-executive directors. Audit committees of smaller companies may comprise two members and one may be the chairman, provided he or she does not chair the committee and was independent on appointment as chairman.¹¹ The board should satisfy itself that at least one member of the committee has recent and relevant financial experience and competence in accounting and/or auditing, and that the audit committee as a whole has competence relevant to the sector in which the company operates.¹² Other non-committee members may be invited to attend and assist the committee from time to time, according to the particular items being considered and discussed.

The audit committee should be provided with sufficient resources to undertake its duties.¹³ Although not a provision in the Code, it is good practice for the company secretary, or his or her nominee, to act as secretary to the committee. The FRC Guidance states that the audit committee should have access to the services of the company secretariat on all audit committee matters. It also states that the company secretary 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.¹⁴ In this regard, it is the company secretary's responsibility to ensure that the board and its committees are properly constituted and advised, and that there is clear coordination between the board and the various committees.

¹⁰ FRC Guidance, paragraph 2

¹¹ Code provision C.3.1. A smaller company is one that has been below the FTSE 350 throughout the year immediately prior to the reporting year (see footnote 6 to the Code).

¹² Code provision C.3.1., FRC Guidance, paragraph 15 and also FCA Rule DTR 7.1.1A R

¹³ FRC Guidance, paragraph 23

¹⁴ FRC Guidance, paragraphs 24 and 25

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The frequency with which the committee needs to meet will vary depending on the nature, scale and complexity of the company and may change from time to time. The FRC Guidance states that it is for the audit committee chairman, 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 Guidance recommends there should be no fewer than three meetings each year.¹⁵ 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.¹⁶

The list of duties included in the model terms of reference are those which all audit committees should consider in line with best practice. Some companies may wish to add to this list¹⁷ and some smaller companies 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, and it should satisfy itself that the sources of information and assurance it receives are sufficient and objective.¹⁸

The Code requires that a separate section of the company's annual report describe the work of the audit committee in discharging its responsibilities and sets out the contents requirements for that report.¹⁹ Such report should be signed by the audit committee chairman.²⁰

15 FRC Guidance, paragraph 18

16 FRC Guidance, paragraph 19

17 For example, some companies also require the committee to monitor/make recommendations on the potential implications of legal actions being taken against the company, the adequacy of arrangements for managing conflicts of interest, the expenses incurred by the chairman, treasury management policies, monitoring the company's supply chain and processes/procedures for compliance with the Modern Slavery Act 2015, and gender pay gap reporting.

18 FRC Guidance, paragraphs 31, 41 and 42

19 Code provision C.3.8. and FRC Guidance, paragraphs 80 and 81

20 FRC Guidance, paragraph 80

D 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 company or if the company has a separate risk committee.

1 Membership

- 1.1 The committee shall comprise at least [three]²¹ members. [The committee shall include at least one member of the risk committee]²² and, where possible, one member of the remuneration committee.²³ Members of the committee shall be appointed by the board, on the recommendation of the nomination committee in consultation with the chairman of the audit committee.²⁴
- 1.2 All members of the committee shall be independent non-executive directors²⁵ at least one of whom shall have recent and relevant financial experience and with competence in accounting and/or auditing.²⁶ The chairman of the board shall not be a member of the committee.²⁷
- 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 non-members may be invited to attend all or part of any meeting as and when appropriate and necessary.²⁸
- 1.4 The board shall appoint the committee chairman. In the absence of the committee chairman and/or an appointed deputy at a committee meeting, the remaining members present shall elect one of themselves to chair the meeting.

²¹ Or in the case of smaller companies (companies below the FTSE 350 index) two members. Code provision C.3.1. and FRC Guidance, paragraph 9.

²² if the board has a separate risk committee

²³ It is not always possible for a company's audit committee to include a member of the remuneration committee but it is helpful to address the issue of board committees working independently whilst having some overlapping agenda items.

²⁴ FRC Guidance, paragraph 13

²⁵ Guidance on circumstances likely to affect independence is given in Code provision B.1.1. See also FRC Guidance, paragraph 14.

²⁶ See Code provision C.3.1.; DTR 7.1.1A R and FRC Guidance, paragraph 15 which also provide that the audit committee as a whole shall have competence relevant to the sector in which the company operates, and set out recommended experience and skills of members.

²⁷ unless the company is a smaller company. See Code provisions regarding the independence of the chairman: A.3.1., B.1.1. and footnote 5. Provision C.3.1. of the Code provides that in smaller companies the company chairman may be a member of, but not chair, the committee provided she or she was independent on appointment as chairman. Except on appointment, the chairman of the company is not considered independent.

²⁸ FRC Guidance, paragraph 20

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2 Secretary

The company secretary, or his or her 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.²⁹

3 Quorum

The quorum necessary for the transaction of business shall be [two] members.³⁰

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.³¹

4.2 Outside of the formal meeting programme, the committee chairman, and to a lesser extent the other committee members, will maintain a dialogue with key individuals involved in the company's governance, including the board chairman, the chief executive, the finance director, the external audit lead partner and the head of internal audit.³²

²⁹ FRC Guidance, paragraph 25

³⁰ Code provision C.3.1. requires that at least one member of the committee has recent and relevant financial experience and DTR 7.1.1A R states that one committee member must have competence in accounting and/or auditing. It would therefore be preferable for any quorum to include such a member whenever possible.

³¹ FRC Guidance, paragraph 18. The frequency and timing of meetings will differ according to the needs of the company and meetings should be organised so that attendance is maximised. The FRC Guidance suggests key dates within the financial reporting and audit cycle might include: when the audit plans (internal and external) are available for review and when interim statements, preliminary announcements and the full annual report are near completion.

³² FRC Guidance, paragraph 22

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5 Notice of meetings

- 5.1 Meetings of the committee shall be convened by the secretary of the committee at the request of 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 by the committee, 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 no later than [five] working days before the date of the meeting. Supporting papers shall be sent to committee members at the same time.³³
- 5.3 Notices, agendas and supporting papers can be sent in electronic form where the recipient has agreed to receive documents in such a way.

6 Minutes of meetings

- 6.1 The secretary shall minute the proceedings and decisions of all meetings of the committee, including recording the names of those present and in attendance.
- 6.2 Draft minutes of committee meetings shall be agreed with the committee chairman and then circulated promptly to all members of the committee, unless it would be inappropriate to do so in the opinion of the committee chairman.

7 Annual general meeting

The committee chairman should attend the annual general meeting to answer shareholder questions.³⁴

8 Duties

The committee should have oversight of the 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.³⁵

³³ Copies of the agendas, papers and minutes may be circulated or made available to the other non-executive directors and to attendees as appropriate and as agreed.

³⁴ Code provision E.2.3. and FRC Guidance, paragraph 85

³⁵ This drafting assumes that these Terms of Reference are adopted by a parent company of a group. FRC Guidance, paragraph 7

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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, interim management statements, 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.³⁶
- 8.1.2 In particular, the committee shall review and challenge where necessary:³⁷
- 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; and
 - 8.1.2.4 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 including the Listing Rules or Disclosure Guidance and Transparency Rules sourcebook.
- 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.

³⁶ Code provision C.3.2. and FRC Guidance, paragraph 32. See also FRC Guidance, paragraph 83 which clarifies that the audit committee would not be expected to disclose information that would be prejudicial to the interests of the company.

³⁷ FRC Guidance, paragraphs 32 to 38

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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 to assess the company's performance, business model and strategy³⁸ and whether it informs the board's statement in the annual report on these matters that is required under the Code.³⁹

8.3 Internal controls and risk management systems⁴⁰

The committee shall:

- 8.3.1 keep under review the company's internal financial controls systems that identify, assess, manage and monitor financial risks, and other internal control and risk management systems;⁴¹ and
- 8.3.2 review and approve the statements to be included in the annual report concerning internal control, risk management and the viability statement.⁴²

8.4 Compliance, whistleblowing and fraud⁴³

The committee shall:

- 8.4.1 review the adequacy and security of the company's arrangements for its employees and contractors 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;⁴⁴
- 8.4.2 review the company's procedures for detecting fraud;

38 Code provision C.3.4. and FRC Guidance, paragraph 37

39 Code provision C.1.1.

40 If the board has a separate board risk committee composed of independent directors with responsibility for the review of internal controls and risk management systems, or the board itself has this responsibility under the matters reserved for the decision of the board, the audit committee's responsibilities would be confined to internal financial controls: Code provision C.3.2. See also FRC Guidance, paragraph 41

41 Code provision C.3.2. and FRC Guidance, paragraph 40

42 unless this is carried out by the board or risk committee. FRC Guidance, paragraph 44

43 If the board has a separate risk committee the duties of that committee could include whistleblowing, fraud, the prevention of bribery, and procedures for compliance with the Modern Slavery Act 2015. Where the company is required by regulation to have in place a designated non-executive director as 'whistleblower's champion', the interaction of their responsibility with the committee's will need to be considered and suitable arrangements put in place.

44 Code provision C.3.5.

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- 8.4.3 review the company'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 company'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 company's compliance function].

8.5 Internal audit⁴⁵

The committee shall:

- 8.5.1 approve the appointment or termination of appointment of the head of internal audit;⁴⁶
- 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;⁴⁷
- 8.5.3 review and approve the annual internal audit plan to ensure it is aligned to the key risks of the business,⁴⁸ 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;⁴⁹

⁴⁵ If the company does not have an internal audit function, the committee should consider annually whether there should be one and make a recommendation to the board accordingly; the absence of such a function should be explained in the annual report: Code provision C.3.6. and FRC Guidance, paragraph 46. See also FRC Guidance, paragraphs 45, 47 and 56.

⁴⁶ FRC Guidance, paragraph 52

⁴⁷ Code provision C.3.6. and FRC Guidance, paragraph 48

⁴⁸ FRC Guidance, paragraph 49

⁴⁹ FRC Guidance, paragraphs 50 and 51. Guidance about the standards can be found in the Chartered Institute of Internal Auditors' Code of Ethics and International Standards for the Professional Practice of Internal Auditing.

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- 8.5.5 ensure the internal auditor has direct access to the board chairman and to the committee chairman, providing independence from the executive and accountability to the committee;⁵⁰
- 8.5.6 carry out an annual assessment of the effectiveness of the internal audit function;⁵¹ 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;⁵²
 - 8.5.6.4 determine whether it is satisfied that the quality, experience and expertise of internal audit is appropriate for the business;⁵³ and
 - 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;⁵⁴
- 8.5.7 monitor and assess the role and effectiveness of the internal audit function in the overall context of the company's risk management system and the work of compliance, finance and the external auditor;⁵⁵ and
- 8.5.8 consider whether an independent, third party review of processes is appropriate.⁵⁶

50 FRC Guidance, paragraph 52

51 Code provision C.3.2. and FRC Guidance, paragraph 53

52 FRC Guidance, paragraph 54

53 FRC Guidance, paragraph 53

54 FRC Guidance, paragraph 53

55 FRC Guidance, paragraph 49. If the board has a separate risk committee, the duties of that committee could include review of the company's internal control and risk management systems.

56 FRC Guidance, paragraph 55

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8.6 External audit

The committee shall:

- 8.6.1 consider and make recommendations to the board, to be put to shareholders for approval at the annual general meeting, in relation to the appointment, re-appointment and removal of the company's external auditor;⁵⁷
- 8.6.2 develop and oversee the selection procedure for the appointment of the audit firm, ensuring that all tendering firms have access to all necessary information and individuals during the tendering process;⁵⁸
- 8.6.3 if an external auditor resigns, investigate the issues leading to this and decide whether any action is required;⁵⁹
- 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;⁶⁰ and
 - 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;⁶¹
- 8.6.5 assess annually the external auditor's independence and objectivity taking into account relevant UK law, regulation, the Ethical Standard⁶² and other professional requirements and the group's relationship with the auditor as a whole, including any threats to the auditor's independence and the safeguards applied to mitigate those threats⁶³ including the provision of any non-audit services;

57 Code provision C.3.7. and FRC Guidance, paragraphs 58 and 60

58 FRC Guidance, paragraph 59. For large companies see also Part 5 of the Competition and Markets Authority: The Statutory Audit Services for Large Companies Market Investigation (Mandatory Use of Competitive Tender Process and Audit Committee Responsibilities) Order 2014.

59 FRC Guidance, paragraph 61

60 FRC Guidance, paragraphs 63 and 65

61 FRC Guidance, paragraphs 63 and 64

62 FRC Ethical Standard June 2016

63 FRC Guidance, paragraph 66

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- 8.6.6 satisfy itself that there are no relationships between the auditor and the company (other than in the ordinary course of business) which could adversely affect the auditor's independence and objectivity;⁶⁴
- 8.6.7 agree with the board a policy on the employment of former employees of the company's auditor, taking into account the Ethical Standard⁶⁵ and legal requirements, and monitor the application of this policy;⁶⁶
- 8.6.8 monitor the auditor's processes for maintaining independence, its compliance with relevant UK law, regulation, other professional requirements and the Ethical Standard,⁶⁷ including the guidance on the rotation of audit partner and staff;⁶⁸
- 8.6.9 monitor the level of fees paid by the company 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;⁶⁹
- 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;⁷⁰
- 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;⁷¹
- 8.6.13 develop and recommend to the board the company's formal policy on the provision of non-audit services by the auditor, including approval of non-audit services by the committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct or material effect on the audited financial statements.⁷²
The policy should include consideration of the following matters:

64 FRC Guidance, paragraph 66

65 FRC Ethical Standard June 2016, section 2

66 FRC Guidance, paragraph 69

67 FRC Ethical Standard June 2016

68 FRC Guidance, paragraphs 66, 67, 68 and 70

69 FRC Guidance, paragraph 67

See also FRC Ethical Standard June 2016, section 4.

70 FRC Guidance, paragraph 60

71 FRC Guidance, paragraph 62

72 FRC Guidance, paragraphs 71, 73 and 74

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- 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; and
- 8.6.13.5 the criteria governing compensation;⁷³
- 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;⁷⁴
- 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;⁷⁵
- 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; and
 - 8.6.16.5 levels of errors identified during the audit;⁷⁶

⁷³ FRC Guidance, paragraph 72
⁷⁴ FRC Guidance, paragraph 21

⁷⁵ FRC Guidance, paragraph 75
⁷⁶ FRC Guidance, paragraph 76

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- 8.6.17 review any representation letter(s) requested by the external auditor before they are signed by management;⁷⁷
- 8.6.18 review the management letter and management's response to the auditor's findings and recommendations;⁷⁸ and
- 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.⁷⁹

9 Reporting responsibilities

- 9.1 The committee chairman 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 retendering plans; and
 - 9.1.3 any other issues on which the board has requested the committee's opinion.⁸⁰
- 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.

⁷⁷ FRC Guidance, paragraph 77

⁷⁸ FRC Guidance, paragraph 77

⁷⁹ FRC Guidance, paragraphs 78 and 79

⁸⁰ FRC Guidance, paragraph 29 and Code provision C.3.8.

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- 9.3 The committee shall compile a report on its activities to be included in the company's annual report. The report should include an explanation of how the committee has addressed the effectiveness of the external audit process; the significant issues that the committee considered in relation to the financial statements and how these issues were addressed, having regard to matters communicated to it by the auditor; and all other information requirements set out in the Code.
- 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.⁸¹ The report to shareholders need not repeat information disclosed elsewhere in the annual report and accounts, but could provide cross-references to that information.⁸²

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 assistance as required;⁸³
- 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;⁸⁴
- 10.3 give due consideration to relevant laws and regulations, the provisions of the Code and the requirements of the Listing Rules, Prospectus Rules and Disclosure Guidance and Transparency Rules sourcebook and any other applicable rules, as appropriate;
- 10.4 be responsible for coordination of the internal and external auditors;⁸⁵
- 10.5 oversee any investigation of activities which are within its terms of reference;

81 FRC Guidance, paragraphs 82 and 44

82 FRC Guidance, paragraph 84

83 Code provision B.5.2. and FRC Guidance, paragraph 23

84 Code supporting principles B.4 and Code provisions B.4.1. and B.4.2. and FRC Guidance, paragraphs 16 and 17

85 FRC Guidance, paragraph 49

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10.6 work and liaise as necessary with all other board committees, taking particular account of the impact of risk management and internal controls being delegated to different committees;⁸⁶ and

10.7 arrange for periodic reviews of its own performance and, 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.⁸⁷

11 Authority

The committee is authorised to:

11.1 seek any information it requires from any employee of the company in order to perform its duties;

11.2 obtain, at the company's expense, independent legal, accounting or other professional advice on any matter it believes it necessary to do so;⁸⁸

11.3 call any employee to be questioned at a meeting of the committee as and when required; and

11.4 have the right to publish in the company's annual report, details of any issues that cannot be resolved between the committee and the board.⁸⁹

⁸⁶ FRC Guidance, paragraph 43

⁸⁷ Code Main Principle B.6. See also FRC Guidance, paragraph 81.

⁸⁸ Code provision B.5.1. and FRC guidance, paragraph 26

⁸⁹ FRC Guidance, paragraph 30

The Governance Institute

ICSA: The Governance Institute is the professional body for governance. We have members in all sectors and are required by our Royal Charter to lead 'effective governance and efficient administration of commerce, industry and public affairs'. With over 125 years' experience, we work with regulators and policy makers to champion high standards of governance and provide qualifications, training and guidance.

We seek to develop the skills, effectiveness and profile of people working in governance roles at all levels and in all sectors through:

- A portfolio of respected qualifications
- Authoritative publications and technical guidance
- Breakfast briefings, training courses and national conferences
- CPD and networking events
- Research and advice
- Board evaluation services

Guidance notes are prepared by the ICSA policy team to support the work of company secretaries and other governance professionals working in the corporate and not-for-profit sectors, and in NHS trusts.

Guidance notes offer authoritative advice, interpretation and sample materials for the many issues involved in the management and support of boards. As such, they are invaluable for those helping their organisations to build trust through good governance.

There are over 100 guidance notes available to ICSA members at **www.icsa.org.uk/guidance**

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