

Model Terms of Reference for an Audit Committee

These are for guidance – adapt them to your own charity’s governance structure and needs.

General responsibilities

The audit committee oversees all systems, controls and processes that may have an impact on the charity’s ability to meet its objectives. The audit committee ensures that:

- Effective audit functions are in place (both external and internal)
- Adequate risk management processes are in place
- An adequate internal control environment is established

Membership

- The audit committee is a sub-committee of the board for XYZ charity, and reports directly to the board.
- Committee members shall be appointed by the board and shall consist of at least three board members. The committee has the power to co-opt up to three members. A quorum shall be two members.
- The chairman of the committee shall be appointed by the board.

Attendance and frequency of meetings

- The audit committee will meet at least three times per year.
- The chief executive, the finance director, the head of internal audit and a representative of the external auditor shall normally attend meetings. Other board members shall also have the right of attendance.
- At least once a year the audit committee shall meet with the external auditor without members of management present.

Reporting

- The audit committee will formally report back in writing to the board after each meeting. Minutes of each meeting and details of significant decisions taken will be made available to all relevant parties.

Specific responsibilities of the audit committee

- To consider all aspects of the external audit, including appointment and remuneration of the external auditor, the nature and scope of the statutory audit, the recommendation of audited financial statements to the board, and the discussion of issues raised in the external auditor’s management letter.
- To ensure the annual financial statements are true and fair and conform to accounting standards, accounting policies are appropriate and applied consistently.
- To review the performance reported in the Trustees’ Annual Report and ensure that this is a true reflection of the charity’s performance.
- To review all reports prepared by the external auditor and agree the programme of work proposed by management to address issues raised.
- To review the process for awarding non-audit work to the external audit firm and ensure that potential conflicts of interest are managed in the best interests of the charity.

Review of internal controls

- To consider all aspects of the internal audit, including the independent review of systems and controls, the development of the nature and scope of the internal auditor’s work programme, and the monitoring of management in implementing recommendations raised by the internal auditor.

- To monitor the compliance of XYZ charity with applicable law and regulation, as well as the charity's own policies and procedures.

Review of risk management processes

- To monitor the assessment of risks to which the organisation is exposed, to ensure this is kept up to date and to ensure that management are charged with implementing controls to mitigate these risks.
- To ensure that the risk management processes are adopted across the whole charity.
- To review the risk assessment process from time to time to ensure that this is effective.

Review and evaluate

- To review the operation of internal and external audit and the adequacy of the level of assurance gained from the combined activities of both.
- Review the performance of the audit committee and assess where change may be needed.