



Revised CUC HE Code of Governance and Audit Committee Code of Practice

<b>Outcome requested:</b>	Governance Committee is asked to <b>note</b> the revised CUC HE Code of Governance published on 17 September and the updated Code of Practice for Higher Education Audit Committees published in June.
<b>Executive Summary:</b>	<p>Governance Committee is asked to <b>note</b> the revised CUC HE Code of Governance published 17 September and the updated Code of Practice for Higher Education audit committees.</p> <p>A full mapping exercise against the updated code of governance will be completed by the Council Secretariat over the next few months. Audit and Risk Committee will complete a mapping exercise against the Code of Practice for Higher Education Committees as part of its annual effectiveness review in early 2021.</p> <p>The updated HE Code of Governance and Code of Practice for HE Audit Committees are appended to this coversheet.</p>
<b>QMUL Strategy: strategic aim reference and sub-strategies [e.g., SA1.1]</b>	Good governance supports all aspects of the strategy.
<b>Internal/External regulatory/statutory reference points:</b>	QMUL Charter and Ordinances Audit and Risk Committee Terms of Reference
<b>Strategic Risks:</b>	N/A
<b>Equality Impact Assessment:</b>	N/A
<b>Subject to prior and onward consideration by:</b>	N/A
<b>Confidential paper under FOIA/DPA</b>	No
<b>Timing:</b>	Prompted by the publication of the new code.
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# CUC

Committee of University Chairs

# The Higher Education Code of Governance

September 2020

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# Section 1 Introduction

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# Foreword

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The contribution of good governance to long-term organisational sustainability and success is widely recognised, and is evident in the growing expectations and demands placed on governing bodies.

The Higher Education Code of Governance has been developed to support governing bodies deliver the highest standards of governance across their institutions. This Code's primary audience is HE providers' governing bodies; however, the thinking that underpins the Code can be applied by any organisation seeking to improve its governance practices.

The purpose of the Code is to identify the key values and elements that form an effective governance framework. However, good governance practice is complex and goes beyond the adoption of the Code. Effective governance requires an organisational culture which gives freedom to act; establishes authorities and accountabilities; and at its core fosters relationships based on mutual respect, trust and honesty.

By visibly adopting the Code, governing bodies demonstrate leadership and stewardship in relation to the governance of their own institutions, and so help to protect institutional reputation and provide a level of assurance to key stakeholders and partners, including the student community and wider society. The Code needs to be read alongside the governing instruments of HEIs and the relevant legal and regulatory requirements that, as far as possible, are not repeated in the Code itself.

While this Code takes account of international and national trends and developments, governance does not stand still. As the expectations of governance change, this Code itself will be reviewed regularly to ensure it remains fit for purpose – normally this will take place every four years.

# Using the Code

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The Code sets out the key values and elements which enable HEIs to demonstrate their commitment to good governance.

The autonomy and diversity of HEIs is one of the great strengths of the UK HE sector. Therefore, there is a need to ensure governance arrangements are proportionate and can apply to institution irrespective of their size, complexity and legal form. Accordingly, this Code is premised on an 'apply or explain' basis, where institutions are given a set of values and elements, but are not mandated to comply with everything. They can choose which parts of the Code apply to them; however, they are expected to justify the reasons behind their choices.

Each institution will decide how best to implement the Code and adopt a governance model which is proportionate and effective for their set of circumstances. HEIs in the devolved nations will need to consider the Code in the context of their legislative and regulatory environments. Scottish institutions, in particular, will need to first look to the Scottish Code of Good Higher Education Governance ([www.scottishuniversitygovernance.ac.uk](http://www.scottishuniversitygovernance.ac.uk)). English HEIs should consider the overlay of the Public Interest Governance Principles (part of the ongoing conditions of registration with the Office for Students) and Welsh HEIs will need to consider the Welsh Governance Charter .

While compliance with the Code is voluntary, its adoption is a valuable source of assurance to stakeholders who need to have confidence in the governance arrangements of HEIs. Institutions that adopt the Code confirm that they do so within the framework of publicly available reporting on corporate governance, e.g. annual reports or financial statements.

Governing bodies will therefore need to consider how best to communicate to stakeholders the extent of their compliance with the Code, though many will choose to set this out within their financial statements.

The Code does not address methods for its own implementation. This is intentional, and aims to reflect the diversity of the sector and support its flexibility and autonomy. The CUC will collaborate with other organisations to provide more detailed advice on implementation in due course.

## Values

At the heart of HE delivery across the UK are a set of core values which HE governance should be founded on:

<b>Integrity:</b>	transparency, accountability, honesty, freedom of speech and academic freedom
<b>Sustainability:</b>	financial and environmental
<b>Inclusivity:</b>	equality, diversity, accessibility, participation and fair outcomes for all
<b>Excellence:</b>	high-quality research, scholarship and teaching
<b>Innovation and growth:</b>	social, economic and cultural
<b>Community:</b>	public service, citizenship, collegiality, collaboration

These values, together with the ‘Nolan Principles of Public Life’ (reproduced for ease of reference at Appendix 1), provide an ethical framework for the personal behaviour of governors and boards as corporate entities, and are the foundations blocks of this Code.

### Objectives

In addition to these principles, the Code is underpinned by an understanding of what future HE governance will need to deliver if it is to meet the challenges of sustainability, growth and change. The objectives are to:

- determine, drive and deliver the institution’s mission and success in a sustainable way (financial, social and environmental);
- protect and promote the collective student interest and the importance of a high-quality student experience;
- ensure student outcomes reflect good social, economic and environmental value;
- effectively manage opportunities and mitigate risks to protect the reputation of the institution, ensuring financial sustainability and accountability for public funding;
- promote and develop a positive culture which supports ethical behaviour and equal, diverse and inclusive practices;

- promote excellence in learning, teaching and research, monitoring institutional and governing body performance;
- publish accurate and transparent information which is widely accessible;
- lead by example, being flexible and adaptable to create a resilient future; and
- ensure arrangements are in place for meaningful engagement with relevant stakeholders (especially students and staff) locally, regionally, nationally and globally.

It is important that, within institutions, the Executive, governing body and Secretary develop a shared understanding of these values and objectives and how they wish to apply the individual parts of the Code. Good governance requires more than the development of processes, since it is built on strong relationships, honest dialogue and mutual respect.

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# The Six Primary Elements of Higher Education Governance

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This Code identifies six primary elements that embody the core values, assist in delivering the objectives and provide the basis for good governance in the UK HE sector. The six elements are all interrelated and should not be read or applied as standalone elements.

- 1 Accountability.** The governing body is collectively responsible and accountable for institutional activities, approving all final decisions on matters of fundamental concern within its remit.
- 2 Sustainability.** Working with the Executive, the governing body sets the mission, strategic direction, overall aims and values of the institution. In ensuring the sustainability of the institution the governing body actively seeks and receives assurance that delivery of the strategic plan is in line with legislative and regulatory requirements, institutional values, policies and procedures, and that there are effective systems of control and risk management in place.
- 3 Reputation.** The governing body safeguards and promotes institutional reputation and autonomy by operating in accordance with the values that underpin this Code, its various elements and the principles of public life.
- 4 Equality, inclusivity and diversity.** The governing body promotes a positive culture which supports ethical behaviour, equality, inclusivity and diversity across the institution, including in the governing body's own operation and composition. This includes ensuring under-representation and differences in outcomes are challenged and, where practicable, corrective action is taken to ensure fair outcomes for all.
- 5 Effectiveness.** The governing body ensures that governance structures and processes are robust, effective and agile by scrutinising and evaluating governance performance against this Code (and other Codes where an institution's constitutional form requires it), and recognised standards of good practice.
- 6 Engagement.** Governing bodies understand the various stakeholders of the institution (globally, nationally and locally) and are assured that appropriate and meaningful engagement takes place to allow stakeholder views to be considered and reflected in relevant decision-making processes.

## Section 2 The Code

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# Element 1 Accountability

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The governing body is collectively responsible and accountable for institutional activities, approving all final decisions on matters of fundamental concern within its remit.

- 1.1** The governing body has overall responsibility for all decisions that might have significant reputational implications for the institution's sustainability (including partnerships or collaborations). It therefore needs assurance that the institution:
  - a) meets all legal and regulatory requirements imposed on it as a corporate body;
  - b) complies with its instruments of governance such as statutes, ordinances and articles; and
  - c) meets the requirements falling upon the institution in respect of public funding issued by bodies, including income from the Student Loan Company.
- 1.2** The regulatory and legal requirements will vary depending on the constitution of individual HEIs, but, for most governing bodies, members are charitable trustees and must comply with case law and legislation governing charities in the exercise of their duties. Some institutions are constituted as companies, and governing body members are normally the company's directors; the primary legislation in this case will be the requirements of the Companies Act.
- 1.3** In both instances, members must discharge their duties in line with the accepted standards of behaviour in public life and the values in this Code, accepting individual and collective accountability for the affairs of the institution.
- 1.4** All members of the governing body (including students and staff members) share the same legal responsibilities and obligations as other members, so no one can be routinely excluded from discussions. All members have a duty to record and declare any conflicts of interest.
- 1.5** Governing bodies must, as far as practicable, conduct their affairs in an open and transparent manner. This includes publishing accurate information on the use of public funding, value for money and other performance information on their websites, as well as any other information that supports regulatory compliance and accountability to all stakeholders.
- 1.6** There needs to be a clear separation of roles and responsibilities between the Executive and the governing body with delegated authorities to the Head of Institution (HoI) and any committees that exist.

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## Element 2 Sustainability

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Working with the Executive, the governing body sets the mission, strategic direction, overall aims and values of the institution. In ensuring the sustainability of the institution, the governing body actively seeks and receives assurance that delivery of the strategic plan is in line with legislative and regulatory requirements, institutional values, policies and procedures, and there are effective systems of control and risk management in place.

- 2.1** The governing body is responsible for the mission, character and reputation of the institution and therefore sets the values and standards that underpin the institution's strategy and operation.
- 2.2** The governing body must be engaged in development of the institution's strategy and formally approves or endorses the strategic plan in accordance with its constitution and the expectations of stakeholders, including students and staff. It will need assurance that the strategic plan is supported by plans or sub-strategies which ensure there are:
- enough financial, physical, human and information resources to support the institution's aims and objectives; meet academic standards; protect the collective student interest; ensure effective delivery and meet any regulatory or funding commitments, including the need to demonstrate value for money;
  - effective arrangements in place for the management of information which meet ethical standards, Freedom of Information requirements and other legislation on the use and protection of data;
  - arrangements in place to ensure that all forms of resources are used in a sustainable (financial, social and environmental), secure and effective manner which supports institutional success; and
  - policies and procedures in place which support the delivery of the institution's strategy in an environmentally sustainable way.
- 2.3** The governing body will need to receive regular, reliable, timely and adequate information to monitor and evaluate performance against the strategic plan. The governing body's role is to have oversight of performance and constructively challenge it, encourage quality enhancement, maintain and raise standards, celebrate achievements and learn from difficulties.

**2.4** The governing body needs to understand the external environment and – along with the Executive – identify, understand and manage risk appetite and strategic risks and opportunities for the institution.

**2.5** The governing body must actively seek and receive assurance that academic governance is robust and effective. Governing bodies also need to provide assurance on academic standards and the integrity of academic qualifications, and will work with the Senate/Academic Board (or equivalent, as specified in their governing instruments) to maintain standards and continuously improve quality. Governing bodies will also wish to receive assurance that specific academic risks (such as those involving partnerships and collaboration, recruitment and retention, data provision, quality assurance and research integrity) are being effectively managed.

**2.6** The governing body needs assurance that the institution is meeting the conditions of funding as set by regulatory and funding bodies and other major institutional funders. These include:

- the need to use funds in line with the principles of regularity, propriety and value for money;
- robust systems of financial control and governance; and
- assurances on social, financial and environmental objectives, e.g. those which support a sustainable environment, the widening of access and participation and civic engagement.

Furthermore, the governing body also needs assurances that:

- the institution's values are practised throughout the organisation;
- the collective interest of current and future students drives decision making, and growth and innovation throughout the institution;
- there is sufficient management freedom and institutional autonomy;
- the institution has considered and taken appropriate actions to mitigate the impact of any risks to students' continuation of study e.g. the closure of a course, campus or location, the discontinuation of a discipline;
- there is an effective and proactive system of risk management in place by which risks are rigorously assessed, understood and effectively managed across the organisation;
- high-quality and robust data is produced and managed to meet all relevant legal and regulatory requirements; and
- effective control and due diligence take places in relation to institutionally significant external activities, for example commercial transactions, collaborations with HEIs in other countries.

For those institutions that are charities, assurance will be needed that commercial transactions conform to the requirements of charity law and regulation. This is particularly the case where institutions have established subsidiary entities, for example separate operating companies or charitable trusts.

The governing body must actively seek and receive assurance that academic governance is robust and effective. Governing bodies also need to provide assurance on academic standards and the integrity of academic qualifications.

- 2.7** The governing body must understand and respect the principle of academic freedom, the ability within the law to question and test received wisdom, and to put forward new ideas and controversial or unpopular opinions without placing themselves in jeopardy of losing their jobs or privileges. The governing body must understand its responsibility to maintain, promote and protect the principle of academic freedom.
- 2.8** The governing body should also understand their institution's legal responsibility to uphold freedom of speech within the law.
- 2.9** Effective remuneration of all staff, especially the Vice-Chancellor and their immediate team, is an important part of ensuring institutional sustainability, meeting regulatory requirements and protecting institutional reputation. The governing body should provide assurance on the extent of the institution's compliance with The Higher Education Senior Staff Remuneration Code (published June 2018 by the CUC), and in particular ensure that no one is responsible for determining or influencing their own remuneration.
- 2.10** Depending on the constitutional documents and regulatory requirements of the institution, some governing bodies will be required to establish a Remuneration Committee to consider and determine, as a minimum, the emoluments of the Vice-Chancellor and other senior staff.
- 2.11** All institutions will have external auditors unless exempt under the Companies Act 2006 because of their small size. All institutions are encouraged to have an audit function, whether in-house or externally provided. Some regulatory requirements will specify the need for an internal audit service. The appointment and work of auditors will usually be overseen by an Audit Committee, comprising members that have no executive responsibility (although members of the Executive may attend by invitation). Further guidance on the role of Audit Committees is published separately by CUC and governing bodies should assess the extent to which they comply with that guidance.
- 2.12** The governing body will consider and, where necessary, act upon an annual audit report from the Audit Committee or equivalent (incorporating recommendations by internal and external audit) and approve the audited annual financial statements.

## Element 3 Reputation

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The governing body safeguards and promotes institutional reputation and autonomy by operating in accordance with the values that underpin this Code, its various elements and the principles of public life.

- 3.1** Members of governing bodies must always act ethically in line with the principles of public life (the Nolan principles), the institution's own ethical framework, and in the interests of the institution, its students and other stakeholders. This applies whether the Board members are elected, nominated or appointed. If a governing body member falls short of these standards, they must be dealt with in accordance with the institution's constitution and Code of Conduct. Such cases must not be ignored.
- 3.2** Members of governing bodies need to act, and be perceived to act, impartially, and not be influenced by social or business relationships. Institutions must maintain, check and publish a register of the interests of members and senior executives. A member who has a professional, pecuniary, family or other personal interest in any matter under discussion which may be seen to conflict with the best interests of the institution must also disclose the interest in advance of any discussion on the topic. A member does not have a pecuniary interest merely because they are a member of staff or a student.
- 3.3** In protecting institutional reputation and autonomy, the governing body must ensure that its decision-making processes and those of the institution are ethical and free of any undue pressures from external interest groups, including donors, alumni, corporate sponsors and political interest groups.
- 3.4** If an individual member of the governing body has a view that is not consistent with the collective view of the governing body, they should abide by the principle of collective decision making and avoid putting specific interests or personal views before those of the institution. Individually they must not make any agreement for which they do not have authority. Breaches must be taken very seriously and be dealt with in accordance with the institution's governing documents, which should include a Code of Conduct.
- 3.5** Promoting trust in institutional governing bodies requires assurances that there is effective communication with relevant stakeholders, including the reporting of significant changes in circumstances. Governing bodies will need to consider how they engage stakeholders in decision making and how they publish information and report performance to stakeholders.

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Members of governing bodies must always act ethically in line with the principles of public life (the Nolan principles), the institution's own ethical framework, and in the interests of the institution, its students and other stakeholders.

- 3.6** The governing body must take practical steps to ensure that the Students' Union or association operates in a fair, democratic, accountable and financially sustainable manner.
- 3.7** The governing body requires assurance that there is a transparent, effective and published process for making and handling a complaint or raising a concern, and that any internal or external complaints or concerns are handled impartially, constructively and, in the case of student complaints, in accordance with any requirements of the Office of the Independent Adjudicator for Higher Education (or equivalent for the devolved nations). The governing body should also ensure there is an effective process in place for investigating disclosures under whistleblowing legislation.
- 3.8** If a governing body decides it is appropriate to remunerate governing body members and this is permitted in its constitution, it must ensure that payments are commensurate with the duties carried out, are reported in the audited financial statements, are consistent with charity and employment law, and reflect the institution's values and ethos.



## Element 4 Inclusion and Diversity

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The governing body promotes a positive culture which supports ethical behaviour, equality, inclusivity and diversity across the institution, including in the governing body's own operation and composition. Diversity in this context does not just mean protected characteristics – it includes a diversity of voice, attitude and experience. It is a means of ensuring that under-representation and differences in outcomes are challenged and, where practicable, followed by a course of corrective action that ensures fair outcomes for all.

- 4.1** HEIs are required by law to comply with equality and diversity legislation, and governing bodies are legally responsible for ensuring the institution's compliance. Legislation in this area does not distinguish between domestic and international students and staff.
- 4.2** The governing body must ensure that there are arrangements in place to:
- eliminate unlawful discrimination, harassment and victimisation;
  - advance equality of opportunity between people who share and those who do not share a protected characteristic;
  - foster good relations between people who share and those who do not share a protected characteristic; and
  - promote an inclusive culture.
- 4.3** Governing bodies need to review and report on the institution's approach to equality, inclusivity and diversity. As a minimum, they must receive an annual equality monitoring report setting out work done by the institution during the year, identifying the achievement of agreed objectives and summarising the data on equality, inclusivity and diversity that they are required to produce and publish. The report needs to consider any significant differential educational outcomes by protected groups. For most institutions, an Equality Impact Assessment and proposals for widening participation in, and increasing access to, HE will be included in the report.
- 4.4** The governing body must routinely reflect on its own composition and consider ways it can encourage diversity in all its forms, thus leading by example. This includes consideration of the impact of decisions on equality, diversity and inclusion.

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## Element 5 Effectiveness

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The governing body ensures that governance structures and processes are robust, effective and agile by scrutinising and evaluating governance performance against this Code (and other Codes where an institution constitutional form requires it) and recognised standards of good practice.

- 5.1** The Secretary (or Clerk) is responsible to the governing body for the provision of operational and legal advice in relation to compliance with governing instruments, including standing orders. They are also responsible for ensuring information provided to the governing body is timely, appropriate and enables informed decision making. The Secretary has a duty to keep governing body members briefed in respect of all relevant developments in governance and accountability. All members of the governing body should have independent access to the advice and services of the Secretary, who must ensure that governing body members are fully aware of the appropriate rules, regulations and procedures. The Secretary should be senior enough to ensure the governing body and the Executive acts in a way which is compliant with the institution's regulations and is independent enough to provide challenge when this is not the case. Arrangements for the appointment or removal of the Secretary may be defined by governing instruments; where they are not, it must be a decision for the governing body as a whole.
- 5.2** The governing body needs the appropriate balance of skills, experience, diverse backgrounds, independence and knowledge to make informed decisions. Some constitutional documents specify governing bodies must include staff and student members.
- 5.3** The size and composition of the governing body needs to reflect the nature, scale and complexity of the institution and governing bodies need enough time and resources to function efficiently and effectively. There is a need for a shared understanding of the division between independent non-executive governors and executive governors. The governing body will also need to consider having a committee sub-structure which supports its effective operation, with specific consideration being given to Audit, Finance and Nominations committees.
- 5.4** An effective governing body has a culture where all members can question intelligently, debate constructively, challenge rigorously, decide dispassionately and be sensitive to the views of others both inside and outside governing body meetings.
- 5.5** An effective governing body ensures the Board culture reflects the articulated values and culture of the institution. It also receives assurance that the prevalent behaviours in the institution are consistent with its articulated values.

- 5.6** The governing body needs to focus on strategic risks and emerging opportunities for the institution and have enough flexibility to respond to these quickly and effectively.
- 5.7** The governing body needs a suitable arrangement for the continuation of business in the absence of the Chair. Arrangements for a Deputy Chair may be codified within the institution's governing instruments; if not, the Nominations Committee or equivalent can advise the governing body.
- 5.8** The governing body also needs to consider the benefits of appointing a Senior Independent Governor (SIG) or equivalent role and explain the rationale for decisions made in this regard. Their role is seen in other sectors as an important aid to good governance; to help advise the Chair, to be an intermediary for other Board members and to help facilitate an annual appraisal of the Chair. The role of the SIG is different to the Deputy Chair, who should be part of the leadership of the Board and deputise for the Chair as well as take on specific duties which are assigned to them. The SIG should be a voice and a sounding board for other governors to sense-check the effectiveness of the governance arrangements, and to formally lead the appraisal of the Chair (and the Deputy Chair).
- 5.9** The governing body needs a formal process to ensure that its members are fit and proper persons. The governing body also needs the power and process to remove any of its members from office, and must do so if a member breaches the terms of their appointment.
- 5.10** A Nominations Committee (or equivalent) is an effective way to advise a governing body on the appointment of new members, and must be established. The Nominations Committee can provide advice to the governing body on terms of office, the perceived skills balance required on the governing body, succession planning and skills refreshment. Normally, final decisions on appointment are taken by the governing body.
- 5.11** In making decisions about terms of office, the governing body needs to ensure there is a planned and progressive refreshing of membership – this includes evaluating the performance of governing body members. The terms of office for governing body members should not be more than nine years (either two terms of four years or three terms of three years) unless there is exceptional justification. This is in line with other Codes and recommended practice.
- 5.12** Governing body members need induction, updates and development which supports understanding of their role and changes in their operating environment.
- 5.13** HEIs must conduct a regular, full and robust review of governance effectiveness with some degree of independent input. This will provide assurance to internal and external stakeholders and allow a mechanism to focus on improvement and chart progress towards achieving any outstanding actions arising from the last effectiveness review. It is recommended this review takes place every three years.

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## Element 6 Engagement

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Governing bodies understand the various stakeholders (especially staff and students) of the institution globally, nationally and locally, and are assured that appropriate and meaningful engagement takes place to allow stakeholder views to be considered and reflected in relevant decision-making processes.

- 6.1** The governing body needs to ensure the activities of the institution are in the interests of students (current and future) and other stakeholders. Donations, partnerships and similar activities must not inappropriately influence the institution's independence, mission or academic integrity. Governance processes and structures should be clearly visible to staff and students (current and future), who should have opportunities to engage with the governance of the institution, should they choose.
- 6.2** The governing body needs assurance of regular, effective two-way communication with students, staff and other stakeholders, and must be advised of any major issues arising.
- 6.3** The governing body must promote and ensure the social, cultural, economic and environmental impact of the institution, and ensure that institutional success and achievements are reported to stakeholders. The governing body must also ensure that relevant stakeholders are advised of any material changes, adverse or other, in policy or circumstance.
- 6.4** Governing bodies need to promote a collegiate, collaborative and cooperative approach to liaison with students, staff and other stakeholders and ensure that interactions are guided by the values, ethics and culture of the institution.
- 6.5** Where institutions enter into significant partnership or working arrangements with other organisations, governing bodies need to be assured of the benefits and risks of the partnership, and need to be satisfied that there are effective governance and risk management arrangements in place to support the partnership.
- 6.6** Governing bodies should ensure the institution is accessible and relevant to its local communities, and should be open to, and engage with, their local communities in identifying their role in delivering public/community benefit and economic, civic duties, cultural and social growth.

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The governing body must promote and ensure the social, cultural, economic and environmental impact of the institution, and ensure that institutional success and achievements are reported to stakeholders.

## Section 3 Appendices

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# Appendix 1

## Nolan Principles of Public Life

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The principles have been taken from the [government website](#) and are the basis of the ethical standards expected of public office holders.

1. **Selflessness:** Holders of public office should act solely in terms of the public interest.
2. **Integrity:** Holders of public office must avoid placing themselves under any obligation to people or organisations that might try inappropriately to influence them in their work. They should not act or take decisions in order to gain financial or other material benefits for themselves, their family, or their friends. They must declare and resolve any interests and relationships.
3. **Objectivity:** Holders of public office must act and take decisions impartially, fairly and on merit, using the best evidence and without discrimination or bias.
4. **Accountability:** Holders of public office are accountable to the public for their decisions and actions and must submit themselves to the scrutiny necessary to ensure this.
5. **Openness:** Holders of public office should act and take decisions in an open and transparent manner. Information should not be withheld from the public unless there are clear and lawful reasons for so doing.
6. **Honesty:** Holders of public office should be truthful.
7. **Leadership:** Holders of public office should exhibit these principles in their own behaviour. They should actively promote and robustly support the principles and be willing to challenge poor behaviour wherever it occurs.

## Appendix 2

# Statement of Primary Responsibilities

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The principal responsibilities of the governing body should be set out in the body's Statement of Primary Responsibilities, which must be consistent with the institution's constitution. While there may be some variations because of different constitutional provisions, the principal responsibilities are likely to be as follows:

1. To set and agree the mission, strategic vision and values of the institution with the Executive.
2. To agree long-term academic and business plans and key performance indicators and ensure that these meet the interests of stakeholders, especially staff, students and alumni.
3. To ensure that processes are in place to monitor and evaluate the performance and effectiveness of the institution against the strategy, plans and approved key performance indicators, which should be, where possible and appropriate, benchmarked against other comparable institutions.
4. To delegate authority to the HoI for the academic, corporate, financial, estate and human resource management of the institution, and to establish and keep under regular review the policies, procedures and limits within such management functions as shall be undertaken by and under the authority of the HoI.
5. To ensure the establishment and monitoring of systems of control and accountability, including financial and operational controls, risk assessment, value for money arrangements and procedures for handling internal grievances and managing conflicts of interest.
6. To establish processes to monitor and evaluate the performance and effectiveness of the governing body itself.
7. To conduct its business in accordance with best practice in HE corporate governance and with the principles of public life drawn up by the Committee on Standards in Public Life.
8. To safeguard the good name and values of the institution.
9. To appoint the HoI as Chief Executive and to put in place suitable arrangements for monitoring their performance.

10. To appoint a Secretary to the governing body and to ensure that, if the person appointed has managerial responsibilities in the institution, there is an appropriate separation in the lines of accountability.
11. To be the employing authority for all staff in the institution and to be accountable for ensuring that an appropriate human resources strategy is established.
12. To be the principal financial and business authority of the institution, to ensure that proper books of account are kept, to approve the annual budget and financial statements, and to have overall accountability for the institution's assets, property and estate.
13. To be the institution's legal authority and, as such, to ensure systems are in place for meeting all the institution's legal obligations, including those arising from contracts and other legal commitments made in the institution's name. This includes accountability for health, safety and security and for equality, diversity and inclusion.
14. To receive assurance that adequate provision has been made for the general welfare of students.
15. To act as trustee for any property, legacy, endowment, bequest or gift in support of the work and welfare of the institution.
16. To ensure that the institution's constitution is always followed, and that appropriate advice is available to enable this to happen.
17. To promote a culture which supports inclusivity and diversity across the institution.
18. To maintain and protect the principles of academic freedom and freedom of speech legislation.
19. To ensure that all students and staff have opportunities to engage with the governance and management of the institution.



# Glossary

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- *Clerk* is used interchangeably with *Secretary*.
- *External* members are all non-executive governing body members from outside the institution, irrespective of how they are appointed.
- *Governing body* which in some HEIs is called the Council, Court or Board of Governors. It may also be the Board of Directors or equivalent.
- *Head of Institution* means the Vice-Chancellor, Principal or equivalent.
- *HEIs* are Higher Education Institutions. The CUC Executive Committee has agreed that the term Higher Education Institution will be used instead of Higher Education Provider. Please note that the Code uses the term interchangeably with 'universities'.
- *Should* is used for recommended actions; however, the Code recognises that there may be circumstances where the recommendation would not be applicable or proportionate for the institution.
- *Stakeholders*: These are staff, existing and prospective students, funders, regulators, suppliers, local communities, public authorities, alumni.
- *Want, need* and *must* are used interchangeably and refer to actions that are in line with the requirements of the Code.

# Higher Education Audit Committees Code of Practice

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May 2020

**CUC**  
Committee of University Chairs

# Higher Education Audit Committees

## Code of Practice

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### Introduction

1. The contribution of effective audit arrangements to long-term organisational sustainability and success is widely recognised. In addition, effective audit arrangements provide reassurance to the public, regulators and other stakeholders as to the effectiveness of organisations, which in turn supports the autonomy of Higher Education providers.
2. Expectations of auditors are set out in various international, national and professional standards, Codes and guidelines. This Code's primary audience is HE providers' Audit Committees, and it is designed to support them in ensuring their institutions have the most effective audit arrangements.
3. The Code identifies the key principles and elements that form an effective Audit Committee. However, good audit practice is complex and goes beyond the adoption of the Code. Effective audit is not just about having a strong Audit Committee; it also requires competent and capable auditors coupled with an organisational culture which gives freedom to act; establishes authorities and accountabilities; and at its core fosters relationships based on mutual respect, trust and honesty.
4. By visibly adopting the Code, Audit Committees demonstrate leadership and stewardship in relation to the audit of their own institutions, and in doing so help to protect institutional reputation and provide a level of assurance to key stakeholders, partners (including the student community) and society more widely. The Code needs to be read alongside the governing instruments of HEIs and relevant legal and regulatory requirements.
5. While this Code takes account of international and national trends and developments, audit does not stand still. As the expectations of audit change, this Code itself will be reviewed regularly to ensure it remains fit for purpose – at least every four years and more regularly when there is significant change.

### Using the Code

6. The Code sets out the key elements that enable HE providers to demonstrate their commitment to effective audit.
7. The autonomy and diversity of HE providers is one of the great strengths of the UK HE sector. Therefore, there is a need to ensure audit arrangements are proportionate and can apply to institutions irrespective of their size, complexity and legal form. Accordingly, this Code is premised on an 'apply or explain' basis in which the governing body is given a set of elements, but is not mandated to comply with everything. Governing bodies can determine, based on the advice of their Executive and considering size, scale and structure etc, which parts of the Code apply to them. However, they are expected to be able to explain and justify the reasons for not adopting elements of the Code.
8. Institutions that adopt the Code can confirm that they do so within the framework of an Audit Committee annual report that is made public and/or a separate statement within their annual accounts.

By visibly adopting the Code, Audit Committees demonstrate leadership and stewardship in relation to the audit of their own institutions.

9. This Code is written for providers that have an Audit Committee and an internal audit function. These are not requirements for all providers. However, some of the principles, ideas and elements might be adopted by other committees if there is no Audit Committee.

### What does the HE Code of Governance say?

10. Working with the Executive, the governing body sets the mission and strategic direction of the institution. It receives assurance that delivery of the strategic plan is in line with legislative and regulatory requirements, institutional values and wider institutional policies and procedures, and that effective systems of control and risk management are in place.

### Why is it important?

11. Regardless of type or size, success for HEIs is built on a foundation of sound governance and financial and reputational sustainability. This requires robust internal controls, including arrangements for securing:
- effective risk management;
  - value for money;
  - legal and regulatory compliance;
  - reliable, accurate and timely management information;
  - management and quality assurance of data submitted to the Higher Education Statistics Agency, the Student Loans Company, the OfS and Funding Councils, Research England and other bodies;
  - appropriate disclosure and transparency; and
  - a culture of uncompromising moral and ethical behaviour.
12. HEIs can access expertise in all these areas – and in the process more successfully fulfil their strategic goals – by using the knowledge and experience of Audit Committees and their auditors.
13. Culture is critical here: it is not just about ethical behaviour, but a culture across the organisation in which people can admit mistakes, embrace continual improvement and welcome constructive challenge. Audit Committees should act as the conscience of the HE provider and conduct their business in a way that provides the assurance required and, if necessary, identifies bad behaviour. Audit must not be a box-checking exercise (conducted to meet the narrowest definition of assurance), and should be about reputation, improvement, constructive challenge and innovation.

### What are the key elements of an effective Audit Committee?

**Element 1:** The role of the Audit Committee is clearly understood.

**Element 2:** Audit Committee membership is independent, experienced and effective.

**Element 3:** Audit Committee meetings are properly organised and supported.

**Element 4:** The Audit Committee has enough resources and access.

**Element 5:** The Audit Committee communicates regularly and effectively with the governing body and appropriate stakeholders.

**Element 6:** The Audit Committee undertakes periodic assessments of its effectiveness.

**Element 7:** The Audit Committee exercises effective oversight of external audit.

**Element 8:** The Audit Committee exercises effective oversight of internal audit.

Audit Committees should act as the conscience of the HE provider and conduct their business in a way that provides the assurance required.

## Element 1: The role of the Audit Committee is clearly understood

14. It is the role of the Audit Committee to advise and assist the governing body in respect of the entire assurance and control environment of the HE provider. Specifically, it will:
  - review and recommend to the governing body for approval<sup>1</sup> the annual consolidated financial statements of the institution, including consideration of the external auditors' management letter and management responses to it;
  - seek appropriate assurances in order that it can advise the governing body on the effectiveness of the HE provider's arrangements for governance and internal control (see paragraph 10); and
  - receive and consider the annual Head of Internal Audit report.
15. Audit Committees must not have any executive authority over the management of the HE provider except for matters that are linked to the provision of assurance and delegated to it, e.g. appointment and dismissal of internal and external auditors, agreement of audit plans and commissioning of specialist advice, if necessary.
16. Institutions should ensure that appropriate members of the Executive are responsible for active engagement with audit processes, the auditors and recommendations for improvements as a result of audits that are agreed with the Audit Committee.
17. The role and responsibilities of the Audit Committee should be set out in written terms of reference, and should – with reference to the relevant regulatory requirements – include the following objectives:
  - a) Monitor and review the effectiveness of the institution's entire risk management (including academic risk), control and governance arrangements. This will include compliance with the legal and regulatory framework that the institution operates within. This should include consideration of the culture and behaviour that is prevalent within the institution and arrangements that can affect reputation, such as the management of conflicts of interest.
  - b) Review the audit of the institution's financial statements, including the audit report, the statement of governors' responsibilities and the statement of internal control. Audit Committees can fulfil a broader role than this, to include all aspects of the review of the financial statements and stand back from the narrative reporting (in particular the Strategic Report) and consider whether it is fair and balanced.
  - c) Consider the transparency and openness of reporting throughout financial statements. There is a good case for separating the more dynamic financial decision making and support of the Finance Committee from the risk, data assurance and control role of the Audit Committee.
  - d) Satisfy itself that suitable arrangements are in place to ensure sustainability and promote economy, efficiency and effectiveness (value for money).
  - e) Consider and advise the governing body on the approach to internal audit – this can be an in-house function, membership of a consortia, outsourced or a hybrid approach. Once the approach is determined, the Audit Committee can consider the appointment and terms of engagement of the internal audit function (and the head of internal audit,

<sup>1</sup> In addition, there is often a Finance Committee that recommends approval of the financial statements after a detailed examination – this is different to Audit Committee review, which provides assurance that there has been a robust examination of the statements via the internal process and the external audit.

The role and responsibilities of the Audit Committee should be set out in written terms of reference.

if applicable), the budget for audit, the provision of any non-audit services (e.g. consultancy) by internal auditors, and any questions arising from their resignation or dismissal.

- f) Review the nature and scope of the internal audit process and discuss with the internal auditors any problems and reservations arising from their audit, including their audit reports and any other matters the internal auditors may wish to discuss.
  - g) Consider and advise the governing body on the appointment and terms of reference of the external auditors, the audit fee, the provision of any non-audit services by the external auditors, and any questions of their resignation or dismissal.
  - h) Review the nature and scope of the external audit process and discuss with the external auditors any problems and reservations arising from their audit, including the external audit management letter and any other matters the external auditors may wish to discuss.
  - i) Monitor annually the performance and effectiveness of external and internal auditors, including any matters affecting their independence and objectivity.
  - j) Monitor other relevant sources of assurance, for example other external reviews
  - k) Oversee the provider's policies related to ethical<sup>2</sup> and other behaviours, including whistleblowing, anti-bribery, material adverse or reportable events, fraud and irregularity etc. – including being notified of any action taken under these policies (see Appendix 2).
18. The Audit Committee's terms of reference should be coordinated with the responsibilities of other governing body or Senate/Academic Board Committees in the institution, for example where there is a Finance Committee, a Risk Management Committee, and other committees focused on risk (e.g. an Investment Committee or an Environment, Health and Safety Committee). These Committees may be required to consider the same issue from different perspectives. Care should be taken to clearly define the roles and responsibilities of each committee, when collaboration is required, whether cross-membership is allowed and whether the Audit Committee Chair or members might attend other committee meetings as an observer (and vice versa).
19. Audit Committee model terms of reference can be found in Appendix 1. These model terms of reference are intended to assist Audit Committees in creating or updating their own terms of reference for their specific circumstances. They are not prescriptive and serve only as a guide in establishing the Audit Committee's work plan and meeting agendas.

## Element 2: Audit Committee membership is independent, experienced and effective

20. The Audit Committee should consist of at least three independent members of the governing body and can co-opt non-members with relevant expertise or interests when necessary. All members of the Committee should be independent, objective and non-executive. The Audit Committee Chair should be a member of and appointed by the governing body. All members should be appointed by the governing body, and any 'independent member' (i.e. not a governing body member) should be appointed via the Nominations

The Audit Committee should consist of at least three independent members of the governing body and can co-opt non-members with relevant expertise or interests when necessary.

<sup>2</sup> Sometimes questions arise as to whether this includes all aspects of ethics, e.g. Research Ethics Committees' and policies. The Audit Committee's role is to provide assurance that there is an appropriate framework for managing research ethics, not to second-guess decisions made by an Ethics Committee.

Committee. Members will need the appropriate mix of skills and experience to allow them to discharge their duties effectively. At least one member of the Audit Committee should have recent and relevant experience in accounting or auditing.

21. The size of the Audit Committee will vary depending on the needs and culture of the institution and the extent of responsibilities delegated to the Committee by the governing body. Committees of three to five individuals are generally most appropriate because they provide for a sufficiently wide range of skills, perspectives and experience.
22. The Committee should have the right, whenever it is satisfied that this is appropriate, to go into confidential session and exclude any or all other participants and observers other than the Audit Committee Secretary. A useful approach is for Audit Committees to routinely have member-only sessions before a meeting, then invite only the auditors to discuss anything they might wish to keep private, and at the end, ask the auditors to leave to give the Executive the opportunity to raise any further private matters. This stops such sessions being seen as somehow related to a particular problem or critical issue.
23. As co-opted members are appointed only to the Audit Committee and not the governing body they will have to make efforts to obtain and maintain an appropriate understanding of the institution. In this respect, appropriate induction training is critical, as is an ongoing programme of activity to ensure that members maintain enough appropriate contact with the organisation. Where appropriate, co-opted members could be copied in on the minutes of the governing body and the papers prepared for its meetings. Whether or not papers are copied, the key requirement is that members need to understand how the HEI operates, its critical processes, the HE sector and key legislation affecting the sector. They also need to understand the role of auditors. This enables them to challenge rigorously and support appropriately, as required.
24. Appointments to the Audit Committee, including co-option arrangements, should be transparent and made by the governing body on the recommendation of the Nomination Committee, in consultation with the Chair of the Audit Committee. Terms of three years, with staggered expiration dates and clear succession planning to help to ensure continuity, are common.
25. All Audit Committee members need to be independent and objective. Senior employees of the institution are generally not considered independent and should not be members of the Audit Committee. Similarly, the Vice-Chancellor, Chair of the governing body and Chair of the Finance Committee (or equivalent) should not be members of the Audit Committee. This does not preclude the Secretary to the Committee being an employee. Nevertheless, some institutions appoint students and staff to their Audit Committees on the basis that it builds trust, promotes inclusion and demonstrates transparency.
26. When determining the independence of an Audit Committee member, the governing body might consider whether any material relationships or circumstances could affect (or appear to affect) the member's judgement. Such relationships and circumstances may occur if the individual has:
  - or has had within the last three years, a material business relationship with the institution, either directly or as a partner, shareholder, director, consultant or senior employee of a body which has such a relationship with the institution; has

The size of the Audit Committee will vary depending on the needs and culture of the institution and the extent of responsibilities delegated to the Committee by the governing body.

- been an employee of the institution within the last five years;
  - close family ties with any of the institution's advisers, officers or senior employees; or has
  - significant links with any of the institution's auditors, advisers, officers or senior employees through involvement in other bodies.
27. Audit Committee members are not usually members of a Finance Committee or its equivalent. This is because the Audit Committee needs the independence to be able to challenge the Finance Committee. Cross-representation might be appropriate where the following conditions are met:
- the Audit Committee has at least three members (not counting co-optees);
  - the person serving on both Committees is not the Chair of either; or
  - in institutions which have a treasurer, that person does not serve on both Committees (albeit this individual might attend the meetings of both Committees).
28. Notwithstanding the above, consideration might be given to Audit Committee members occasionally attending Finance Committee meetings by invitation, as observers and vice versa. Consideration should be given to the ongoing independence of the Audit Committee if there is a regular observer, as this could adversely influence the work and deliberations of the Committee.
29. In determining who should sit on the Audit Committee, the governing body should not lose sight of the fact that the Committee's remit is much broader than financial audit. The Audit Committee's approach should always be risk-based, and therefore its remit encompasses aspects of governance; culture and behaviour; risk management (including academic risk) and control, as well as the economy; efficiency and effectiveness of the institution's activities. It is important that the Audit Committee seeks multiple inputs into its deliberations drawing on Executive management, internal and external auditors and any other expert voices it feels necessary to be able to reach a rounded conclusion.
30. Equally, it may be beneficial for members to have experience in areas pertinent to the institution and the specific circumstances in which it operates. For example, including staff from other institutions on the Audit Committee may help the Committee to draw its conclusions as to whether certain governance, risk or control processes will be easily embedded within the fabric of the institution.
31. When determining the composition of the Audit Committee, it is also important to balance experience in several different areas with a wide range of knowledge, skills and personal attributes such as:
- sound judgement;
  - integrity and probity;
  - the ability to question intelligently and with relevance;
  - the ability to and debate constructively;
  - the ability to challenge rigorously and decide dispassionately; and
  - being trusted and respected by other governing body and Committee members.
32. It is important to emphasise that effective Audit Committees are about the people and their behaviours more than the processes and structures. This means that all members need to make sure they attend most meetings, prepare appropriately and make an effective contribution. To contribute

In determining who should sit on the Audit Committee, the governing body should not lose sight of the fact that the Committee's remit is much broader than financial audit.



means that they will need a good understanding of the business. The roles of the Chair and Clerk are crucial in ensuring an appropriate rigour of debate; effective relationships with management and auditors and checking that the Committee continuously adds value to the operations of the institution.

### **Element 3: Audit Committee meetings are properly organised and supported**

33. Audit Committee meetings need to coincide with key dates within the financial reporting and audit cycle to enable the Committee to make timely and influential decisions. A quorum will normally be at least two members, one of whom must be a member of governing body. If there is only one member of a governing body present, they should take the Chair for the meeting. If members are unable to attend, then provision should be made for them to provide comments on any papers, either via the Committee Secretary or the Chair, in advance of the meeting.
34. Audit Committees need a set of standing orders within the context of general governance arrangements for the provider to ensure the proper conduct of business. These standing orders must be approved by the governing body and be subject to regular review (i.e. at least biennially).
35. Notwithstanding the Audit Committee's right to decide who is entitled to attend any meeting, the internal and external auditors should have unrestricted right of access to the Audit Committee and/or its Chair and the right to ask the Chair to convene a meeting if necessary. The single exception would be agenda items covering the review of the audit service itself.

### **Element 4: The Audit Committee has enough resources and access**

36. The Audit Committee must be provided with enough resources to undertake its duties and make effective use of its time. The Committee must have the right to obtain all the information it considers necessary and to consult directly with the internal auditors, external auditors, Executive management and any employees it considers necessary.
37. The governing body should make funds available to the Audit Committee to enable it to take independent legal, accounting or other advice when the Committee reasonably believes it necessary to do so.
38. The institution should provide an induction programme for new Audit Committee members. This should cover the role of the Audit Committee, including its terms of reference and expected time commitment by members, and an overview of the institution including, for example, its key risks and critical accounting policies. Depending on skills and experience this may need to be supplemented by a development programme.
39. The Audit Committee should have a Secretary – normally the clerk to the governing body or some other independent person. In determining the Secretary to the Committee, the governing body should consider whether the proposed Secretary has significant financial or other senior management responsibilities that might impair, or be seen to impair, the independence of the individual.

### **Element 5: The Audit Committee communicates regularly and effectively with the governing body and appropriate stakeholders**

40. The Audit Committee should ensure that it communicates effectively with the governing body, head of finance (or equivalent), internal auditor, external auditor and other stakeholders. The key channel of communication is via the Audit Committee Chair.

The Audit Committee must be provided with enough resources to undertake its duties and make effective use of its time.

41. The Audit Committee also needs to have open, timely communications with the governing body if it is to assist the governing body effectively in discharging its responsibility for adequate and effective risk management, culture, control and governance and for the economy, efficiency and effectiveness of the institution's activities. This may be via written reports at Board meetings, written information in between meetings and oral reports at Board meetings from the Chair.
42. The Audit Committee should produce an annual report for the governing body and the Head of Institution, timed to support the preparation of the published financial statements.
43. The Audit Committee should consider the annual financial statements in the presence of the external auditors, including the auditors' formal opinion, the statement of members' responsibilities and the statement of internal control, and when satisfied recommend them to the governing body for approval.
44. The annual report should include the Committee's opinion of the adequacy and effectiveness of the institution's arrangements for risk management, control and governance, sustainability, economy, efficiency and effectiveness (value for money) and the quality of data submitted to regulatory bodies. The report should describe how the Audit Committee has discharged its duties and should include any significant issues arising during the financial year and the period up to the date of the report.
45. The governing body needs to monitor any changes from the date of the Audit Committee report to the date of approval of the audited financial statements as the statement of internal control must explicitly relate to the period covered by the financial statements, and the period up to Board approval.

#### **Element 6: The Audit Committee undertakes periodic assessments of its effectiveness**

46. The Audit Committee should periodically (a minimum of every four years) undertake a review of its terms of reference and its own effectiveness and recommend any necessary changes to the governing body.
47. There is no right way to conduct such a review, but some form of assessment is desirable every year, and it is best that different approaches are used in different years. So, one year, it might simply be a discussion in a member-only session about how things have gone and what might be changed. Another year, there might be a questionnaire issued to members, auditors<sup>3</sup> and senior managers, while occasionally there may be merit in asking for some external input – perhaps from the Audit Chair or the Head of Audit from another institution, and sometimes from an independent reviewer (typically as part of an independent review of the institution's overall governance arrangements). Possible areas for consideration are set out in Appendix 3).

#### **Element 7: The Audit Committee exercises effective oversight of external audit**

48. The Audit Committee assists the governing body by providing independent oversight over external audit. Specifically, the Audit Committee should:
  - a) Consider and advise the governing body on the appointment and terms of reference of the external auditors, having done due diligence on the audit

<sup>3</sup> Auditors should only be asked about how well the Committee performs, not about the effectiveness of other auditors.

The Audit Committee should produce an annual report for the governing body and the Head of Institution, timed to support the preparation of the published financial statements.

- firm including their membership of a professional institute (which ensures that they will comply with relevant audit codes and regulations), and ensure through contract that they will comply with relevant audit codes and regulations, the audit fee, the provision of any non-audit services by the external auditors, and any questions arising from their resignation or dismissal.
- b) Review the nature and scope of the external audit process and discuss with the external auditors any problems and reservations arising from their audit, including the management letter and any other matters the external auditors may wish to discuss.
  - c) Monitor the performance and effectiveness of the external auditors each year, including any matters affecting their independence and objectivity.
  - d) Consider the external auditor's independence and request from the auditor a statement that sets out the auditor's processes used to ensure their independence and objectivity, taking into consideration relevant UK professional and regulatory requirements. For its part, the audit firm should have properly monitored internal policies and procedures in place to establish that the firm and its individual members are independent from the institution. This should take place at intervals of, at most, one year.
49. The Audit Committee needs to ensure that it exercises appropriate oversight over the audit of subsidiaries as well as the institution itself. Where the same firm audits both subsidiary entities and the institution, the Audit Committee should review the nature, scope and results of the external audit process with the 'group' auditor. Similar considerations apply where subsidiary entities are audited by different auditors. Here, the Audit Committee needs to satisfy itself that the group auditor is factoring into the audit plan significant subsidiary audit risks, and that appropriate audit evidence is sought.
50. The governing body, acting on the advice of the Audit Committee, may pass a resolution to remove the auditors before the end of their term of office if serious shortcomings are identified.
51. Where auditors cease to hold office for any reason, they should provide the governing body with a statement of any circumstances connected with their removal which they consider should be brought to the governing body's attention, or a statement that there are no such circumstances. The Audit Committee should investigate the issues giving rise to such resignation or removal and consider whether any action is required. If necessary, the Audit Committee Chair should ensure that each member of the governing body has a copy of the auditors' statement.
52. To help ensure that non-audit services provided by the auditor do not impair, or appear to impair, the auditor's independence or objectivity, the Audit Committee should develop a policy on the provision and pre-approval of all non-audit services. In determining this policy, the Committee should consider the skills and experience of the audit firm, potential threats to the auditor's independence and objectivity, and any controls put in place by the institution and the auditor to mitigate such threats.
53. The pre-approved policy devised by the Audit Committee should formally specify the types of non-audit work from which the external auditor should be excluded, and the types of work for which the external auditor can be engaged. The policy should ensure that the auditor has appropriate procedures to ensure compliance with their profession's ethical standards.

The governing body, acting on the advice of the Audit Committee, may pass a resolution to remove the auditors before the end of their term of office if serious shortcomings are identified.

54. Where the institution is incorporated under the Companies Acts, the 'directors' (members of the governing body) are required to report publicly that they have taken steps to make themselves aware of relevant audit information and have disclosed all relevant information to the external auditor.
55. At the end of the audit cycle, the Audit Committee should review the audit findings, including any changes in audit approach or any modification to the auditor's report. The issues to be discussed will depend on institutional and audit circumstances. Nevertheless, the Audit Committee should:
- discuss with the external auditor any major issues that arose during the audit and were subsequently resolved, and those issues that have been left unresolved;
  - review any problems detected in internal control;
  - review key accounting and audit judgements; and
  - review levels of errors identified during the audit, obtaining explanations from management and, where necessary, the external auditor about why certain errors might remain uncorrected.

### **Element 8: The Audit Committee exercises effective oversight of internal audit**

56. The Audit Committee assists the governing body by providing independent oversight over internal audit. Specifically, the Committee should:
- assist the governing body in the appointment, or termination of appointment, of the institution's head of internal audit or externally provided internal audit function. The Committee's recommendation to the governing body should be based on its assessment of the qualifications, expertise, resources and independence of the internal auditor and the effectiveness of the audit process (see below);
  - ensure that the internal auditors have direct access to the Chair of the Audit Committee and the governing body, and are directly accountable to the Audit Committee for their performance;
  - review and assess the internal audit work plan;
  - receive periodic reports on the results of the internal auditors' work;
  - review and monitor management's responsiveness to the internal auditors' findings and recommendations;
  - monitor internal auditors' performance annually against agreed performance measures; and
  - ensure that internal audit is properly positioned within the institution and is adequately resourced to fulfil its role effectively.
57. The contracts for any externally provided services should be subject to competitive tender at least every five years, subject to any procurement rules. Contracts should include a clause to allow for earlier termination in the event of unsatisfactory performance.
58. Provision should be made for outgoing auditors to complete their work and submit their final annual report. Attendance by the outgoing auditors at the appropriate Audit Committee meeting should also be considered. If there is a change in auditor, institutions should ensure that the new contract immediately follows the end of the old contract or make other suitable arrangements.
59. Subject to normal staffing arrangements (for in-house auditors) and any contractual arrangements, only the governing body (or the Audit Committee where delegated authority exists) in consultation with the Vice-Chancellor (or equivalent) may pass a resolution to remove the internal auditors before the end of their term of office if serious shortcomings are identified.

The contracts for any externally provided services should be subject to competitive tender at least every five years, subject to any procurement rules.

60. The Audit Committee should review the audit plan and satisfy itself that appropriate audit coverage will cover all the institution's assurance needs. This includes ensuring that the requirements of regulators are actively considered as part of the planning process. If internal audit is not covering an area, then other means of assurance should be in place. When the Audit Committee is satisfied with the audit plan, it should, if its terms of reference so require, recommend the plan to the governing body for approval. Once the plan has been approved, the Audit Committee should monitor the auditors' progress against it during the year. Ideally, the Audit Committee will operate a rolling planning cycle to ensure each key area is considered at least once every three years.
61. The Audit Committee should also do its utmost to ensure that internal audit has:
- enough respect and support within the institution;
  - unrestricted access to all records, assets, personnel and premises;
  - authorisation to obtain whatever information and explanations are considered necessary by the head of internal audit; and
  - adequate human and other resources to perform its work effectively.
62. While the internal auditors report to the HOI (or equivalent) on a day-to-day basis, the Audit Committee has an oversight responsibility. As such, the Committee needs to determine appropriate communication channels and reporting arrangements with internal audit. This will include the unrestricted right of the Head of Internal Audit to report any matter they deem appropriate to the Chair of the Audit Committee. It is important to make best use of members' time and effectively manage the amount of paperwork received by Audit Committees. Some Audit Committees want to see every audit report, some a summary of every report, some only reports with limited (or no) assurance and others a periodic summary. Progress reports, comparing audit activity against the audit plan, are also useful.
63. It is important that the Audit Committee considers significant individual audit findings or recommendations, though it need not be concerned with more detailed findings unless the Committee considers it valuable to do so.
64. The governing body, advised by the Audit Committee, should ultimately be responsible for either ensuring that management takes prompt and effective action on those audit reports which call for it, or recognising and accepting the risks of management's inaction.
65. The internal audit service should provide the governing body and HOI with an annual report of its activities. This report should relate to the financial year and should include any significant issues up to the date of the report. Such reports are generally reviewed by the Audit Committee.
66. When agreeing appropriate performance measures for internal audit, the Audit Committee should recognise that, to be effective, such measures need to be adapted to each institution's requirements. The following are some of the more common measures used to monitor the performance of internal audit, but selection is a matter for each institution:
- performance against agreed programme, scope and time;
  - staffing continuity, skills mix, quality and seniority of team;
  - timeliness of engagements and reports;
  - clarity and accuracy of reports, and effectiveness of follow-up of previous recommendations;
  - Audit Committee attendance;
  - focus on risk and key issues; and
  - openness in discussion with the Audit Committee.

It is important to make best use of members' time and effectively manage the amount of paperwork received by Audit Committees.

## Appendix 1

# Audit Committee: model terms of reference

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### Constitution

The governing body has established a Committee of the governing body known as the Audit Committee.

### Scope

It is the role of the Audit Committee to advise and assist the governing body in respect of the entire assurance and control environment of the institution.

### Membership

All members of the Audit Committee and its Chair shall be appointed by the governing body, from among its own members, and must consist of members with no executive responsibility for the management of the institution. There shall be no fewer than three members; a quorum shall be at least two members. The Chair of the governing body and Chair of the Finance Committee should not be members of the Audit Committee. Members should not have significant interests in the institution.

At least one member should have recent relevant experience in finance, accounting or auditing. The Committee may, if it considers it necessary or desirable, co-opt members with relevant expertise.

### Attendance at meetings

The head of finance (or equivalent), the head of internal audit and a representative of the external auditors shall normally attend meetings where business relevant to them is to be discussed. The Committee has the right, whenever it is satisfied that this is appropriate, to go into confidential session and exclude any or all other participants and observers other than the Audit Committee Secretary.

### Frequency of meetings

Meetings shall normally be held four times each financial year. The external auditors or head of internal audit may request additional meetings if they consider it necessary.

### Authority

The Committee is authorised by the governing body to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee, and all employees are directed to cooperate with requests made by the Committee.

The Committee is authorised by the governing body to obtain outside legal or other independent professional advice and to secure the attendance of non-members with relevant experience and expertise if it considers this necessary, normally in consultation with the HOI and/or Chair of the governing body. However, it may not incur direct expenditure in this respect more than £xx without the prior approval of the governing body.

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At least one member should have recent relevant experience in finance, accounting or auditing.

The Audit Committee is authorised to approve<sup>4</sup> all audit planning documents on behalf of the governing body.

The Audit Committee will review the audit of the draft annual financial statements. These aspects will include the external audit opinion, the statement of members' responsibilities, the statement of internal control and any relevant issue raised in the external auditors' management letter. The Committee should, where appropriate, confirm with the internal and external auditors that the effectiveness of the internal control system has been reviewed, and comment on this in its annual report to the governing body.

## Duties

The duties of the Committee shall be to:

- a) Advise the governing body on the appointment of the external auditors, the audit fee, the provision of any non-audit services by the external auditors, and any questions of resignation or dismissal of the external auditors.
- b) Discuss with the external auditors, before the audit begins, the nature and scope of the audit.
- c) Discuss with the external auditors problems and reservations arising from the interim and final audits, including a review of the management letter, incorporating management responses, and any other matters the external auditors may wish to discuss (in the absence of management where necessary).
- d) Consider and advise the governing body on the appointment and terms of engagement of the internal audit service (and the head of internal audit if applicable), the audit fee, the provision of any non-audit services by the internal auditors, and any questions of resignation or dismissal of the internal auditors.
- e) Review the internal auditors' audit risk assessment, strategy and programme; consider major findings of internal audit investigations and management response; and promote coordination between the internal and external auditors. The Committee will ensure that the resources made available for internal audit are enough to meet the institution's needs (or make a recommendation to the governing body as appropriate).
- f) Keep under review the effectiveness of the risk management, culture, control and governance arrangements and review the external auditors' management letter, the internal auditors' annual report and management responses.
- g) Monitor the implementation of agreed audit-based recommendations from whatever source.
- h) Ensure that all significant losses have been thoroughly investigated and that the internal and external auditors – and where appropriate the regulator – have been informed.
- i) Oversee the institution's policy on fraud and irregularity, including being notified of any action taken under that policy.
- j) Satisfy itself that suitable arrangements are in place to ensure the sustainability of the institution and to promote economy, efficiency and effectiveness. This may include consideration of arrangements that:
  - a) support the culture and behaviour that is prevalent within the institution;
  - b) ensure the effective management of conflicts of interest; and
  - c) enable the appointment of 'fit and proper persons' to the governing body and senior executive positions.

<sup>4</sup> Or recommend to the governing body for approval.

The Audit Committee will review the audit of the draft annual financial statements.

# CUC

Committee of University Chairs

- k) Satisfy itself that effective arrangements are in place to ensure appropriate and accurate data returns are made to external stakeholders and regulatory bodies.
- l) Receive any relevant reports from the National Audit Office and its equivalents in Scotland, Wales and Northern Ireland, the regulator and other organisations.
- m) Monitor annually the performance and effectiveness of the external and internal auditors, including any matters affecting their objectivity, and make recommendations to the governing body concerning their reappointment, where appropriate.
- n) Monitor other relevant sources of assurance, for example other external reviews.
- o) Consider elements of the annual financial statements in the presence of the external auditors, including the auditors' formal opinion, the statement of members' responsibilities and the statement of internal control, in accordance with the regulator's accounts directions.
- p) In the event of the merger or dissolution of the institution, ensure that the necessary actions are completed, including arranging for a final set of financial statements to be completed and signed.

## Reporting procedures

The minutes (or a report) of meetings of the Audit Committee will be circulated to all members of the governing body.

The Committee will prepare an annual report covering the institution's financial year and any significant issues up to the date of preparing the report. The report will be addressed to the governing body and HOI and will summarise the activity for the year. It will give the Committee's opinion of the adequacy and effectiveness of the institution's arrangements for the following:

- risk management, control and governance (the risk management element includes the accuracy of the statement of internal control included with the annual statement of accounts); and
- sustainability, economy, efficiency and effectiveness.

This opinion should be based on the information presented to the Committee. The Audit Committee annual report should normally be submitted to the governing body before the members' responsibility statement in the annual financial statements is signed. The report will usually be published after consideration by the governing body.

## Clerking arrangements

The clerk to the Audit Committee will be the Secretary to the governing body (or another appropriate independent individual).

## Review

The Audit Committee should periodically (and at a minimum of every four years) undertake a review of its terms of reference and its own effectiveness and recommend any necessary changes to the governing body.

The Audit Committee should periodically (and at a minimum of every four years) undertake a review of its terms of reference and its own effectiveness.



## Appendix 2

# The role of the Audit Committee related to ethical and other behaviour<sup>5</sup>

The Audit Committee should question whether management has considered those risks likely to have the greatest financial, reputational or regulatory impact on the institution. This should include:

- how the Nolan Principles are integrated into the operations of the provider;
- the management of whistleblowing procedures;
- arrangements for anti-bribery;
- tests for 'fit and proper persons'/reference checking;
- the identification and reporting of material adverse events;
- identifying fraud risks and a rigorous assessment of any relevant internal controls and their ability to prevent and/or detect fraud; and
- the management of conflicts of interest.

The Audit Committee should determine whether a consistent approach is taken across the provider, whether the risks assessed as high are dealt with appropriately, and whether management is engaged in the process.

The Audit Committee should enquire as to whether the institution has an effective awareness programme which is updated as appropriate and provided in a relevant format to different levels of management and staff (including new joiners).

The Audit Committee is not involved in day-to-day management, and therefore not closely involved with the detail of matters related to these activities, behaviours and procedures. However, it can usefully focus attention on the need for proper policies and procedures to help in protecting reputation. In some institutions the governing body may delegate this role to an Ethics Committee.

The Audit Committee should question whether appropriate policies have been issued and whether they are user-friendly and adopted throughout the institution. Policies which might be considered include a fraud-response plan, a whistleblowing policy (see below), induction and appraisal arrangements, etc. The Committee should consider not just whether these policies are appropriate, but whether they are effective and how management has confirmed this. The Audit Committee's objective should be to ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action – i.e. an oversight role.

The Committee should ensure that management is providing clear direction to the institution on ethical and other behaviour and requesting and receiving relevant information on suspected breaches and risks.

The following are, among other factors, sometimes seen as symptomatic of a potential for breaches in appropriate behaviour to occur:

- overly dominant senior executives with unfettered powers;
- frequent changes in finance or other key personnel, auditors or other professional advisers;
- implausible explanations as to reductions in satisfaction levels and/or rises in complaints, unexpected costs, surpluses, or projections that are too good to be true;

<sup>5</sup> Including whistleblowing, anti-bribery, material adverse and reportable events, fraud and irregularity, etc.

The Audit Committee should question whether management has considered those risks likely to have the greatest financial, reputational or regulatory impact on the institution.

- a lack of justification for special arrangements made for specific staff or contractors;
- individuals who have expensive lifestyles or behaviours that are potentially at variance with the remuneration they receive from the institution;
- decision-making processes that are not transparent; and
- discouragement of constructive challenge.

## Appendix 3

# Audit Committee Self-Review

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There is no 'right' way to carry out such a review, but the following is a set of statements which can be used as a basis for such a review. Members of the Committee can use this as an agenda for discussion, as a questionnaire for individual completion and collation, or as an aide memoire for an external reviewer to use at interview. There are other questions that might be asked, and equally it may not be necessary to ask each question every year. The questions can be considered by members, auditors and managers.

### Theme 1: Committee focus

1. The Committee has clear and agreed terms of reference.
2. The Committee has a clear understanding of their roles and responsibilities, including, where appropriate, those relevant to bodies in receipt of public funds.
3. The Committee has set itself a series of objectives it wants to achieve this year.
4. The Committee has made a conscious decision about how it wants to operate in terms of the level of information it would like to receive for each of the items in its cycle of business.
5. Committee members contribute regularly across the range of issues discussed.
6. The Committee is fully aware of the key controls, sources of assurance and who provides them, and who is responsible for mitigating the key risks to the organisation.
7. The Committee clearly understands and receives assurances and oversees controls to manage/operate key functions.
8. Consideration is given to all the areas within the Committee's remit, appropriate to the significance and risk to the institution.

### Theme 2: Committee team working

9. The Committee has the right balance of experience, knowledge and skills to fulfil the role described in its terms of reference.
10. The Committee has at least one member who has a good understanding or experience of auditing.
11. The Committee has at least one member who has a recent and relevant accounting background.
12. The Committee has structured its agenda to cover all areas within its remit.
13. The Committee builds constructive professional relationships with both internal and external auditors.
14. The Committee ensures that the relevant manager attends meetings to enable it to secure the required level of understanding of the reports and information it receives.
15. Management fully briefs the Committee in relation to the key risks, assurances and gaps in control/assurance in a timely fashion.
16. Members feel sufficiently comfortable within the Committee environment to be able to express their views, doubts and opinions.
17. Members understand the information and messages discussed at meetings.
18. When a decision has been made or action agreed, members feel confident that it will be implemented as agreed and in line with the timescale set down.

### Theme 3: Committee effectiveness

19. The quality of Committee papers received allows members to perform their roles effectively.
20. The timeliness of Committee papers received allows members to perform their roles effectively.
21. Members provide real and genuine challenge.
22. Debate can flow, and conclusions are reached without being limited by time constraints, etc.
23. Each agenda item is 'closed off' appropriately so that members are clear what the conclusion is, who is doing what, when and how, and how progress will be monitored.
24. At the end of each meeting members discuss the outcomes and reflect on decisions made and what did and did not work well.
25. The Committee provides a written summary report of its meetings to the governing body.
26. The governing body understands the reporting from the Committee.
27. There is a formal appraisal of the Committee's effectiveness each year. The appraisal is evidence-based and considers the views of members and external contributors.

### Theme 4: Committee engagement

28. The Committee reviews internal audit plans, ensuring appropriate internal audit coverage of key control systems and the proper degree of coordination of work with external auditors.
29. The Committee reviews the external audit scope and approach, ensuring members understand and are satisfied with the extent of audit work anticipated and the level of assurance obtained.
30. The Committee actively challenges management to gain a clear understanding of key matters.
31. The Committee is clear about the complementary relationship it has with the other governing body or Senate/Academic Board Committees.

### Theme 5: Committee leadership

32. The Committee Chair has a positive impact on Committee performance.
33. Committee meetings are chaired effectively and with clarity of purpose and outcome.
34. The Committee Chair is visible within the organisation and is considered approachable.
35. The Committee Chair allows debate to flow freely and does not assert their own views too strongly.
36. The Committee Chair provides clear and concise information to the governing body on the activities of the Committee and the implications of all identified risks, gaps in control and assurances.