

# Audit and Risk Committee

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## Terms of reference

**Approved by the Board of Trustees on 26 March 2024**

### Constitution

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

### Role and responsibilities

2. On behalf of the Board the Committee oversees key aspects of the British Council's systems of governance, risk management and internal control. The Committee's responsibilities relate to the British Council Group as a whole and, unless required otherwise by regulation, it shall carry out the duties below for the British Council as parent and its major subsidiary undertakings.
3. The Committee's responsibilities are to:
  - a. Risk appetite and risk strategy
    - i. review annually the British Council's risk appetite and make recommendations to the Board on proposed changes;
    - ii. support the Board in determining the nature and extent of the principal risks it is willing to tolerate to achieve its strategic objectives;
    - iii. oversee and advise the Board on the organisation's current risk exposures, the likelihood and the impact of principal risks materialising, and the management and mitigation of principal risks to reduce the likelihood of their incidence or their impact;
    - iv. review the organisation's capability to identify and manage new and emerging risks;
    - v. advise the Board on future risk strategy.
  - b. Internal controls and risk management systems:
    - i. consider internal audit reports, findings and recommendations in relation to internal controls and risk management;
    - ii. review the adequacy and effectiveness of the organisation's processes and procedures to manage risk and the internal control framework, including the design, implementation and cost effectiveness of those systems;

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- iii. review reports on actual or suspected fraud, bribery, financing of terrorism or other financial crime;
  - iv. review new incidents that meet the criteria for serious incident reporting to the Charity Commission and approve associated reports in advance of submission;
  - v. provide a healthy challenge to management on its approaches to managing specific risks, including consideration of alternative approaches seen elsewhere.
- c. Monitor and review the effectiveness of the organisation's internal audit and risk functions:
- i. approve the appointment or termination of the Director Internal Audit and Head of Risk and of any significant third party contracted in this field;
  - ii. approve the internal audit charter and annual internal audit plan, ensuring the plan takes account of the British Council's risk profile and related assessment;
  - iii. ensure that internal audit and risk functions have the access and resources they require to carry out their work effectively and that the Director Internal Audit and Head of Risk have access to both the Chair of the Board and Chair of the Committee.
- d. Annual report and accounts
- i. monitor the integrity of the organisation's financial statements, as included in the annual report and accounts;
  - ii. taking account of the external auditor's views in respect of the annual report and accounts, review and where necessary challenge: the appropriateness of accounting policies, estimates and judgements; the application of significant accounting policies; and the methods used to account for significant or unusual transactions;
  - iii. review the content of narrative reporting included in the annual report and accounts (excludes the remuneration report);
  - iv. provide advice (where requested by the Board) on whether the annual report and accounts, taken as a whole, provides a fair, balanced and understandable review of the organisation's structure, legal purposes, objectives, activities, financial performance and financial position.
- e. Monitor and review the effectiveness and independence of the Group's external audit arrangements:
- i. oversee management's appointment, reappointment and removal of external auditors and, if an auditor resigns, investigate the issues leading to that decision;
  - ii. approve the remuneration and terms of engagement of the Group's external auditors;
  - iii. review and monitor the independence and objectivity of the external auditors;
  - iv. review the effectiveness of the external audit process, taking into consideration relevant professional and regulatory requirements;
  - v. seek to ensure co-ordination of external and internal audit activities;
  - vi. meet at least once a year with the Group's external auditors without management present to discuss the auditors' remit and any issues arising from the audits;

- vii. review external audit plans and findings and management's response to the auditor's findings and recommendations; and
- viii. review and approve the policy on the engagement of external auditors to supply non-audit services.

## Information requirements

4. As and when appropriate the Committee will be provided with:
  - a. the statement of risk appetite and the organisation's risk management strategy
  - b. principal risk and divisional risk reports
  - c. regular deep dives on principal risks
  - d. a review of the emerging risk profile
  - e. a report from management on its assessment of the organisation's internal controls and actions to increase their efficiency and effectiveness;
  - f. proposals for the internal audit charter and annual internal audit plan;
  - g. the Director Internal Audit's annual opinion and report;
  - h. quality assurance reports on the internal audit function
  - i. the draft statutory accounts and governance statement of the organisation;
  - j. the external auditors' audit plans, audit completion reports and management letters;
  - k. a report on any proposals to tender for audit functions; and
  - l. a report on co-operation between internal and external audit.
5. The Committee will also receive regular reports from the Director Internal Audit<sup>1</sup>, Head of Risk and the external auditors.

## Authority

6. The Committee is a non-executive Committee and has no powers other than those specifically delegated in these terms of reference. The Committee is authorised to:
  - a. approve the remuneration and terms of engagement of external auditors of the charity and of the Group's subsidiaries;
  - b. seek any information it requires from any employee of the British Council Group in order to perform its duties;
  - c. call any employee to be questioned at a meeting as and when required;
  - d. hold exit interviews with the Director Internal Audit, Head of Risk, and the Chief Financial Officer (should it wish);
  - e. engage in the recruitment of a new Director Internal Audit and Head of Risk;
  - f. have full access to any third party advisor it may request;
  - g. approve the submission of new serious incident reports to the Charity Commission;
  - h. approve the internal audit charter and annual internal audit plan, ensuring the plan takes account of the British Council's risk profile and related assessment;

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<sup>1</sup> Addressing: work performed (and a comparison with work planned); key issues emerging from the work of internal audit; management's response to audit recommendations; changes to the agreed internal audit plan; and any resourcing issues affecting the delivery of the objectives of internal audit.

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- i. approve the policy on the engagement of external auditors to supply non-audit services.

## Membership and attendees

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

## Conflicts of interest

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

## Quorum and frequency of meetings

17. The quorum for meetings will be two members of whom at least one must be a Trustee.
18. Decisions in Committee meetings require a simple majority of members voting in favour. Decisions outside meetings, such as by email, require approval by a three-quarters majority of eligible Committee Members (including by at least two Trustees) <sup>2</sup>.

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<sup>2</sup> Provision consistent with the Royal Charter and Bye Laws on decisions without a meeting (Bye-Law 11).

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19. The Committee will meet regularly and normally four times a year. The Chair of the Committee may call an additional meeting at any time.

## **Secretary**

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

## **Minutes of meetings**

21. The secretary shall take minutes of all Committee meetings.

22. Draft minutes shall be circulated promptly to the Chair of the Committee for initial review prior to circulation as a draft to the Board. The minutes shall be submitted for approval at the next meeting of the Committee.

## **Access**

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

## **Reporting**

24. The Chair of the Committee, or in their absence another Trustee member, shall report to the Board at the next Board meeting.

25. The Committee shall formally report on its work to the Board once a year. This report shall be timed to support the finalisation of the accounts and the Governance Statement, summarising the Committee's conclusions from the work it has done during the year.

26. The Chair of the Committee has direct access to report to the Chair of the Board as required.

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

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