

## **AUDIT & FINANCE COMMITTEE TERMS OF REFERENCE**

**Review date: October: Annually**

APPROVED AT THE BOARD MEETING OF 1 NOVEMBER 2017.

The Board has established an Audit & Finance Committee (AFC) as a Committee of the Crofting Commission Board to support them in their responsibilities for issues of risk, control and governance and associated assurance through a process of constructive challenge. The AFC will also provide support to the Board by detailed scrutiny of financial statements, budgets and other financial proposals.

### **MEMBERSHIP**

The AFC will comprise a minimum of three non-executive Board Members. In accordance with the Crofting Reform Act 2010, the Commission Convener will be the Chair of the AFC.

Appointments to the AFC will be made by the Commission. The AFC will be provided with a secretariat function by the Chief Executive.

Having the Convener in the Chair of the AFC, while in accordance with legislation, is directly against good practice, as the AFC should feel free to review the governance of the organisation as a whole. To address this conflict the AFC will therefore elect a Vice-Chair. The Convener offers a standing apology for non-attendance and nominates the Vice-Chair to chair all meetings. Our sponsor, Agricultural Development and Crofting Branch (formerly Land Tenure), confirmed they are content with this arrangement on 28<sup>th</sup> August 2013.

### **REPORTING**

The AFC will formally report to the Board and Accountable Officer after each meeting. A copy of minutes of the meeting will form the basis of the report along with a verbal update provided by the Chair of the AFC.

The AFC will provide the Board and Accountable Officer with an Annual Report, timed to support finalisation of the accounts and the Governance Statement, summarising its conclusions from the work it has done during the year. The report will be prepared by the Chair of the AFC.

## **RESPONSIBILITIES**

The AFC will advise the Board and Accountable Officer on:

### **Audit issues**

- the strategic processes for risk, control and governance and the Governance Statement
- the accounting policies, the accounts, and the annual report of the Commission, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors
- the planned activity and results of both internal and external audit
- the adequacy of management response to issues identified by audit activity, including external audit's management letter/report
- the effectiveness of the internal control environment
- assurances relating to the corporate governance requirements for the Commission
- anti-fraud policies, whistle-blowing processes, and arrangements for special investigations
- compliance with the principles of Best Value
- following consideration of the External Auditor's report, approval of the annual accounts for signature by the Accountable Officer
- OR following consideration of the External Auditor's report, recommendation of approval of the annual accounts to the Board for signature by the Accountable Officer.

### **Finance issues**

- The AFC will, at each meeting, monitor the financial performance of the Commission by scrutiny of current financial reports. It will bring any matters of concern to the attention of the Convener, Accountable Officer or Board as appropriate.
- The AFC will each year review detailed budget proposals for the following financial year, bring any matters of concern to the attention of the Convener, Accountable Officer or Board as appropriate, and advise the Board on whether to approve the budget.
- The AFC will, at each meeting, note any other financial matters arising and bring any significant concerns or issues to the attention of the Board.

The AFC will also annually review its own effectiveness and report the results of that review to the Board and Accountable Officer.

## **RIGHTS**

The AFC may:

- co-opt additional Members for a period not exceeding a year to provide specialist skills, knowledge and experience; and
- procure specialist ad-hoc advice at the expense of the Commission, subject to budgets agreed by the Board or Accountable Officer.

## **ACCESS**

The Head of Internal Audit and the representative of External Audit will have free and confidential access to the Chair of the AFC.

## **MEETINGS**

The procedures for meetings are:

- The AFC meet formally four times a year and will also agree subsequent additional meetings throughout the year based on need. This will be in accordance with the AFC work programme (sample set out below). In addition, the Chair of the AFC may convene additional meetings, as he or she deems necessary. In accordance with the Crofting Reform Act 2010 the Chair may appoint a Vice-Chair from the AFC members to act as Chair when the Convener is unable to be present. The Board or Accountable Officer may ask the AFC to convene further meetings to discuss particular issues on which they want the Committee's advice; there will be a minimum of three Members of the Audit Committee with a quorum of two. A majority of Members should be elected Members where this is achievable.
- AFC meetings will normally be attended by the Accountable Officer, the Head of Operations and the Finance Manager.
- Meetings may also be attended, if required by the Committee, by the Head of Internal Audit (or appropriate representative), and a representative of External Audit.
- External Audit has a right to attend any meeting of the Board or its Committees if it so requires.
- The AFC may ask any other officials or staff members of the Commission to attend to assist it with its discussions on any particular matter.
- The AFC 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.
- The agenda, discussions and minutes will clearly distinguish between matters which relate to the Committee's Audit role and those which relate to financial scrutiny.
- To assist with the administration of the Committee, routine policy papers, or papers for information, at the behest of the Committee Chair and/or Head of Operations, can be circulated either electronically or by post for Committee members who can choose either method for comment to agree or disagree. A nil return from a Committee member will be considered agreement, unless the Commissioner has intimated his or her annual leave commitments. In the event of a majority approval of the circulated papers, these recorded decisions will be brought before the next meeting of the Committee for homologation.
- In the event of a paper not receiving a majority decision or a Commissioner raising an unacceptable risk to the Commission relating to the paper, it will be remitted in the first instance to the Committee Chair and/or Head of Operations before deferral to the next meeting of the Committee for full deliberation and decision.
- To avoid undue delay between the 4 scheduled meetings per year, a report will be circulated by e-mail at the end of each month containing any routine policy or information papers and a progress update on any outstanding Internal or External Audit recommendations.

## **INFORMATION REQUIREMENTS**

For each meeting the AFC will be provided with:

### **Audit issues**

- a report summarising any significant changes to the Commission's Risk Register
- a progress report from a representative of Internal Audit summarising work done and emerging findings
- a progress report from the External Audit representative summarising work done and emerging findings.

## **Finance issues**

- The most recent financial reports.

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

## **Audit issues**

- proposals for the Terms of Reference of Internal Audit
- the Internal Audit Strategy
- the Head of Internal Audit's Annual Opinion and Report
- quality assurance reports on the Internal Audit function
- the draft accounts of the Commission
- the draft Governance Statement
- a report on any changes to accounting policies
- External Audit's management letter/report
- a report on co-operation between Internal and External Audit
- review of Key Performance Indicators
- progress report on Audit Recommendations.

## **Finance issues**

- Detailed annual budget proposals
- Significant annual budget amendments.

The above list suggests minimum requirements for the inputs which should be provided to the AFC. In some cases more may be provided.

## **AUDIT & FINANCE COMMITTEE MINUTES**

To enable the Board to consider issues in a timely manner, draft minutes will be forwarded to the next meeting of the Board following the AFC meeting. The Board will also be advised whether the draft minutes that were contained within the Committee papers were approved, with or without amendment.