



Terms of Reference for Finance and Audit Committee

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1. Constitution

The Finance and Audit Committee (the “Committee”) was constituted upon the basis of these terms of reference at a full meeting of the Registered Members held on 3 June 2024 in accordance with the Articles of Association of the Architectural Association (Inc.) It supersedes two previous committees of the Architectural Association, the Audit and Risk, and Finance and Resources committees, and replaces previous terms of reference.

2. Purpose

- a) The Committee will have oversight of a programme of work that offers assurance to Council on the adequacy and effectiveness of the internal control mechanisms, risk management, governance, and financial sustainability of the Architectural Association (AA). The Committee will be responsible for overseeing the financial performance of the AA and ensuring appropriate actions are taken by management in response to any opportunities or risk in respect of financial performance.
- b) The Committee oversees the identification of new and emerging risks, and ensures there are appropriate actions being taken by management in response to mitigate those risks.
- c) The Committee will monitor the corporate risk register, and will recommend to Council for approval the annual budget, and the trustees’ annual report and financial statements. The Committee will oversee the provision of external and internal auditor services, and the implementation by management of audit-based recommendations.

3. Role and Responsibilities

Financial Sustainability and Effectiveness

- a) To oversee the financial sustainability of the AA through the receipt of the financial statements, regular review of the financial performance against budget and external auditors’ reports, seeking to ensure that management addresses areas of financial risk through effective controls and mitigation measures.
- b) To review the financial feasibility of the approved AA strategy and its implementation, including income generation and capital expenditure, seeking to ensure that the annual budget, and longer-term financial planning, reflect the resource requirements of the AA strategy and day-to-day operations of the AA.

1. External Audit

- a) Review the effectiveness of the work of the external auditors and recommend to Council the appointment of the external auditors, the audit fee and the provision of any non-audit services by the external auditors which may be deemed useful.
- b) Review and approve annually the nature and scope of the external audit, before the audit begins.
- c) Review the annual financial statements, and the interim and final external audit reports and opinion, discussing with the external auditors any areas of concern or reservations arising from the interim or final audits. Such discussion may occur without management, as reasonably deemed necessary by the Committee.
- d) Monitor the effectiveness and implementation by management of any audit-based recommendations.
- e) Ensure, through receipt of advice from the external auditors, the integrity and accuracy of the financial statements and their compliance with relevant regulatory requirements and accounting standards.
- f) Recommend to Council for approval the annual trustees' report and financial statements.
- g) Oversee the tendering exercise for the external audit services at least every five years, in liaison with management.

2. Controls

- a) Ensure procedures for financial controls and identifying misconduct or irregularities are maintained and effectively implemented by management.
- b) Receive notification of any significant financial misconduct, irregularities, or losses as they occur, ensuring that the Office for Students, Charity Commission, and auditors have been timely notified, as appropriate, ensuring that such incidents are thoroughly investigated and an investigation report, with outcomes and lessons learnt, is received by the Committee and acted upon by management.
- c) Review annually, and recommend to Council a financial framework that reflects the Council approved scheme of delegation, seeking to ensure clarity of management responsibilities and authority with appropriate controls to mitigate financial, legal and compliance risks.
- d) Receive annually the bank mandate(s) and confirmation of the financing arrangements of the AA. To approve any significant changes to banking arrangements on behalf of the Council, and to recommend any proposed loans or significant financial commitments to the Council.
- e) Ensure the AA has a reserves policy and investment policy that reflect best practice, the needs of the AA as a higher education institution and charity, and aligns with the AA strategy, seeking external advice as reasonably deemed necessary by the Committee. Ensure that the financial plans and projections for the AA reflect the agreed reserves levels and optimise investment opportunities, and respond to known or acknowledged investment risks.
- f) To approve the establishment of, investment in, or winding up of any AA trading subsidiaries and to keep under review the financial sustainability of the trading subsidiaries, ensuring their existence and operations continue to be in the best interests of the AA.
- g) Receive and scrutinise the annual report and financial statement from AA Publications Limited and any other trading subsidiary of the AA.

3. Financial planning and sustainability

- a) Receive annual proposals from management on any changes to staff pay (as provided for by the Pay Policy) and to tuition fees, and make corresponding recommendations to Council.

- b) Receive and scrutinise the annual budget proposals, including capital expenditure budget and recommend the annual budget to Council for approval. Seeking to ensure that adequate resources are available to meet the needs of the AA, its students and staff whilst maintaining the long-term sustainability of the AA.
- c) Report, at least annually, to Council on the current and projected financial position of the AA over the next 5 years, and on horizon scanning in respect of perceived financial risks and their mitigations.
- d) Review annually all staff pension provisions, both historic and current, ensuring that professional advice is regularly taken for all pension obligations concerning the monitoring of investment performance, continuing affordability to the AA and compliance with all related legal and regulatory obligations. Receive annually assurance that the Architectural Association (Incorporated) Staff Retirement Benefits Plan, remains viable and that the financial liabilities of the AA in respect of the scheme are being effectively highlighted and managed.

Accountability and Effectiveness

4. Internal Audit

- a) Review and approve annually the proposed scope of the internal audit for the forthcoming budget year, ensuring the internal audit is focusing on areas of risk identified in the corporate risk register, and recommendations from the annual internal audit report.
- b) Receive reports from the internal auditors, their recommendations, and management responses, and meet with the internal auditors, without management as reasonably deemed necessary by the Committee, to discuss the reports.
- c) Oversee the implementation of the internal audit recommendations by management.
- d) Regularly review the effectiveness of the internal audit provision, and make recommendations to Council on the appointment of or removal of internal auditors, and the internal audit fee.
- e) Oversee the tendering exercise for the internal audit services at least every five years, in liaison with management.

Risk and Compliance

5. Risk Management

- a) Review and advise Council on the effectiveness of Risk Management Policy and Framework in identifying risks, management response to those risks, and the effectiveness of the mitigations and controls in place. The Committee will consider the corporate risk register, the external auditor's management letter, internal and external audit reports, and management responses to audit-based recommendations, in undertaking this review.
- b) Review annually Council's Risk Appetite statement and advise Council on its adequacy in reflecting the current risk appetite of Council, considering the opportunities and challenges faced by the AA.
- c) Receive at each meeting an updated corporate risk register that has been considered by management and discuss with management the adequacy of the identification of risk, the mitigation measures, and their implementation.
- d) Review the adequacy of the insurance provisions in mitigating the risks identified in the AA corporate risk register.

6. Legal and Regulatory Compliance

- a) The Committee shall receive annual reports on compliance with, and approve the relevant policies or procedures for:
 - Anti-Money Laundering
 - Sanctions
 - Anti- Bribery

- Whistleblowing;
 - Fraud and financial misconduct
- b) The Committee shall receive assurance annually that the following have been filed and any serious incidents appropriately reported:
- Charity Commission – trustee report and financial statements e.g., SORP; annual filings and reporting of serious incidents
 - Office for Students – financial reporting and filings, serious incidents
 - Companies Act – financial reporting, statements, and filings

4. Committee Membership

- a) The Council will appoint the members of the Committee and its Chair from time to time as required, upon the recommendation from the Nomination Committee.
- b) The Committee will have at least three independent members of the Council, and a quorum of least two members.
- c) At least one member of the Committee will have recent relevant experience and qualifications in finance, accounting, or auditing.
- d) At least one member of the Committee will be a member of the Estates & Infrastructure Committee.
- e) Members of the Committee will not have executive responsibility for the management of the AA, or other significant interests in the AA, unless an exception is agreed by Council.
- f) The President will not be a member of the Committee.
- g) Appointments to the Committee will be for three years, renewable at the Council's discretion.

5. Reporting and Authority

- a) The Committee will make whatever recommendations to Council it deems appropriate on any area within its remit, for example, where action or improvement is needed or risks have been identified that are not being effectively mitigated.
- b) The Committee will report at least annually to Council on the fulfilment of its responsibilities as set out in these terms of reference, and on such other matters as reasonably delegated to it by Council. The report will be made by the Chair, or other nominated members of the Committee.
- c) The Committee will approve items of expenditure or financial commitments, in accordance with the Council's scheme of delegation.

6. Meetings

- a) The proceedings and resolutions of meetings of the Committee, including the names of those present and in attendance, will be minuted. Each meeting's minutes will be circulated with the next subsequent meeting's papers for review and approval by the Chair. Once approved, the minutes of each meeting will be kept on file by the Company Secretary for inspection.
- b) The Committee will meet at least four times per year, to reflect the audit and budget timetables for the year.
- c) The members of the Committee should make themselves available at each Annual General Meeting of the AA to answer questions concerning the Committee's work.
- d) Meetings of the Committee will be called by the secretary of the Committee at the request of any of its Chair or at least two members of the Committee, or at the request of the external auditors if they consider it necessary.

- e) Unless otherwise agreed, notice of each meeting confirming the venue, time, and date together with an agenda of the matters to be discussed at the meeting will be forwarded to each member and any other person required to attend no later than five working days before the date of the meeting. Any supporting papers will be sent to each member of the Committee and to other attendees (as appropriate) at the same time.

7. Attendance

The attendees at the Committee shall be:

- School Director
- Head of Finance
- Company Secretary

And such other members of staff required for the conduct of the Committee's business, as reasonably deemed necessary by the Committee.

8. General

- a) The Council will ensure that the Committee:
- Has access to sufficient resources to carry out its duties, including access to the Company Secretary and senior staff of the AA, as required;
 - Is provided with appropriate and timely training, both in the form of an induction programme for new members and annual training for Council members. The Committee may request specialist training on new or developing areas of responsibility, via the Company Secretary.
- b) The Committee will ensure that it adheres to the governing documents of the AA including the Articles of Association, By-laws, Standings Orders and AA Code of Behavioural Expectations in undertaking its business.
- c) The Committee will consider the provisions of the UK Corporate Governance Code, the CUC Higher Education Code of Governance and the Charity Governance Code and observe applicable laws and regulations including but not limited to relevant portions of the Charities Act 2011 and Higher Education and Research Act 2017 (as may be amended, from time to time).
- d) The Committee will regularly review its own performance and, at least every two years (ideally at the start of each year), review its terms of reference to ensure it is operating at maximum effectiveness, and recommend any changes it considers necessary to the Council for approval.
- e) The Committee is authorised by the Council to examine any activity within its terms of reference and to obtain, at the AA's expense, professional advice as deemed reasonably necessary by the Committee on any matter within its terms of reference. The Committee is authorised to seek any information it requires from any employee or director as reasonably deemed necessary by the Committee,

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