

Finance, Audit and Risk Committee Sample Terms of Reference

Table of Contents

1 Introduction	2
1.1 Importance of the Committee	2
1.2 Treasurer or no Treasurer	2
2 Duties and Responsibilities	2
2.1 Internal financial management, reporting and monitoring	2
2.2 Internal Controls to prevent and detect fraud, errors and misstatements	3
2.3 External financial reporting	3
2.4 External audit by a qualified auditor	4
2.5 Risk Management and Mitigation	4
2.6 Internal Audit	4
2.7 Compliance and Governance	4
2.8 Avenue for whistleblowers	5
3 Framework and Context	5
3.1 Establishment of the Committee	5
3.2 Authority	5
3.3 Composition	6
3.4 Invitees and Support	6
3.5 Meetings	7
3.6 Voting	7
3.7 Conflicts of Interest	7
3.8 Confidentiality	8
3.9 Secretariat	8
3.10 Minutes	8
3.11 Reporting	8
3.12 Reviews	8
3.13 Other	9
4 Last Updated	9
4.1 Approval and Review	9
4.2 Version History	9
5 Disclaimer and Further Information	10

1 Introduction

1.1 Importance of the Committee

Good governance of an association will often involve the establishment of a number of advisory committees. A *Finance, Audit and Risk Committee* is important as its aim is to maintain strong overall financial management and risk mitigation.

Whilst the **Terms of Reference** will be different for each association, there will generally be a number of clauses common to all such committees.

1.2 Treasurer or no Treasurer

The role of Treasurer is important in an association with no paid staff or contracted assistance. As finances need to be managed, the Honorary Treasurer in small associations often undertakes the bookkeeping and financial reporting role.

If your association is not staffed and has an Honorary Treasurer, it should have a Finance, Audit and Risk Committee. This is because the necessity to maintain strong controls over and wise stewardship of finances should not be left to one volunteer Treasurer and a busy Board.

In associations with paid staff undertaking finance tasks, we suggest that the Treasurer be replaced by the Chair of the Finance, Audit and Risk Committee. This is because the preparation of the finances should be done by the Finance Manager and the financial reports to the Board should be done by the CEO.

When a management-level CEO is appointed, it is the CEO's responsibility to implement the strategic plan and achieve budget. That is why the CEO needs to present the financial reports. Having a volunteer Treasurer present the finances is a distraction from the focus needing to be on the CEO to achieve budget targets.

These sample Terms of Reference have been written for an association with a CEO and no Treasurer. If your association has no CEO and does have a Treasurer, it will need to be adjusted accordingly.

2 Duties and Responsibilities

2.1 Internal financial management, reporting and monitoring

- Review and advise the Board on the financial management and financial sustainability of the Association.
- Review and recommend on:
 - ☐ Accounting systems and process
 - ☐ Bank accounts and signatories

- ☐ Budgeting
- ☐ Forecasting
- ☐ Cash management
- ☐ Income management
- ☐ Expenditure control
- ☐ Capital expenditure
- ☐ Cash flow
- ☐ Investments
- ☐ Financing and borrowing
- ☐ Safeguarding of assets
- ☐ Insurances
- ☐ Complex, major or unusual transactions
- ☐ Periodic management reporting and variance analysis

2.2 Internal Controls to prevent and detect fraud, errors and misstatements

- Review and evaluate internal control policies and procedures.
- Receive documented assurance from management and auditors as to the adequacy and quality of internal controls as they relate to the finance function.
- Commission specific investigations relating to financial matters, records, accounts and reports which it considers appropriate.

2.3 External financial reporting

- Review and make recommendations to the Board on:
 - ☐ The approval of the annual financial statements
 - ☐ Consistency of any annual report with the financial statements and other relevant circumstances
 - ☐ Accounting principles and policies impacting the financial statements ☐ Such other financial reports as appropriate issued to other regulators or contractual authorities (e.g. Government agencies)
- Review significant financial reporting issues and complex transactions.
- Ensure the financial statements comply with accounting standards and include

adequate disclosure.

2.4 External audit by a qualified auditor

- Consider and address any reports prepared by the external auditor in relation to the financial accounting, reporting and internal control processes.
- Ensure all recommendations made by the external auditor are addressed by management and implemented as appropriate.
- Review the independence and performance of the external auditor and recommend the appointment / rotation / replacement of the external auditor as necessary.
- Review and recommend for approval the annual audit engagement letter.
- Review the annual audit plan and recommend for approval the fees charged for audit and review services.
- Recommend for approval non-audit services that may be provided by the external auditor and ensure that independence is not compromised.
- Resolve, as far as possible, any disagreements between the external auditor and management regarding financial reporting.
- Review the external auditor's annual statement of their independence.

2.5 Risk Management and Mitigation

- Oversee the Association's risk management framework and processes.
- Consider management assessment of 'risk appetite' as appropriate to the organisation.
- Identify major risks.
- Consider adequacy of risk mitigation strategies and levels of residual risk.
- Ensure there are procedures in place to identify, monitor, document, assign responsibility, manage and communicate risks and risk awareness across all functions of the Association.

2.6 Internal Audit

- Approve the internal audit Terms of Reference.
- Review and approve the internal audit annual plan particularly focusing on high risk areas.
- Review and consider all reports by the internal auditor.
- Ensure all recommendations made by the internal auditor are addressed by management and implemented as appropriate.
- Monitor the performance and independence of the internal auditor.

2.7 Compliance and Governance

- Evaluate the adequacy and effectiveness of legal and regulatory compliance control and reporting systems.

- Compliance with laws, regulations, the Association's constitution and policies, contractual, government or other commitments and discharging reporting or other requirements of regulators
- Advise and assist the Board to ensure that an appropriate governance framework and processes are in place.

2.8 Avenue for whistleblowers

- Act as an independent avenue for whistleblowers and disclosures of possible illegal activities (e.g. fraud, corruption or improper payments) where appropriate and within its area of responsibility.

3 Framework and Context

3.1 Establishment of the Committee

The *Finance, Audit and Risk Committee* is a Committee established by, and of the Board (pursuant to the Constitution) to assist the Board in maintaining a sound corporate governance framework and undertaking its fiduciary duties and responsibilities.

3.2 Authority

The Committee has limited delegated authority from the Board to undertake its approved role and purpose and discharge the activities detailed in this document.

The Committee is advisory only and not a decision-making Committee. Nothing in these Terms of Reference changes or limits any powers or responsibilities of the Board.

The members of the Committee are not employees and their role does not extend into operational management of the association.

Members of the Committee are not required to personally conduct detailed reviews or investigations and are entitled to rely on employees and professional advisors if that reliance is made in good faith and on their independent assessment as to competency and reasonableness of the information provided.

Subject to budgetary approval, the Committee may retain independent legal counsel, specialist accountants or experts to advise or assist in the conduct of its investigations / inquiries.

The Committee, or parties engaged to assist the Committee, may request any relevant information it requires from staff. Staff members are required to co operate with such requests.

3.3 Composition

The Committee members will be appointed by the Board with a maximum of 4 members. The suggested composition is:

- 2 Directors (other than the Association President/Chair)
- 1 Member, either with particular skills or a former senior volunteer
- 1 suitably qualified independent person, appointed for their specialist skills, expertise or knowledge, and ideally a non-member with no personal connection to the association Board.

Appointments for independent members shall be for 3 years. Independent members are eligible for reappointment.

The Association President will not be on the *Finance, Audit and Risk Committee* as

- (1) they will already have a heavier volunteer workload and
- (2) they will be more involved in the expenditure decisions relating to the association.

Committee members should have the appropriate skill, knowledge and experience to undertake the functions and responsibilities of the Committee.

The Board of Directors shall appoint a Director as Chair and the independent Committee member as Deputy Chair. If there is no independent member, the Board will appoint one of the other members as Deputy Chair.

No member should serve on the Committee for more than 6 years.

The Committee appointment and term expiration should be staggered so that only one Committee member leaves at one time. This will facilitate continuity of knowledge within the Committee.

No Committee member shall be a current executive, employee or professional advisor or such former person within 6 years of ceasing to be so connected.

If allowed by the Constitution and there are sufficient funds, the Board may compensate an independent Committee member.

The Association should reimburse all reasonable expenses of Committee members.

The Committee should develop an annual work plan against its Terms of Reference in order to discharge its mandate and responsibilities.

3.4 Invitees and Support

Persons other than Committee members may attend meetings of the Committee by invitation.

Staff including the CEO, CFO, Finance Manager and Risk Manager will provide support to and attend Committee meetings as requested.

Internal and external auditors may be invited to attend Committee meetings as required. Such invitees may take part in discussions but have no voting rights.

3.5 Meetings

The Committee will meet approximately 4 times a year and as required by changed or special circumstances. The likely meeting time will be half a day or one day.

The external auditor should attend at least one meeting annually when the financial statements are being considered and may request any additional meetings.

In exceptional circumstances the Chair may request a private or 'in camera' meeting of Committee members only with selected invitees as appropriate without staff members present.

A quorum will be more than half the members. In the Chair's absence, members present will select a Chair for that meeting. (If a Deputy Chair is appointed, they will chair that meeting)

All members are expected to attend every meeting either in person or via telephone or videoconference.

The notice and agenda of a meeting will include supporting papers.

The Board may request and receive the notice and agenda for a forthcoming meeting.

3.6 Voting

All matters requiring decision will be decided by a simple majority of votes of members present. The Chair has no casting vote.

3.7 Conflicts of Interest

Conflicts of Interest of members should be avoided.

Committee members are to disclose all conflicts of interests and potential conflicts of interest at the commencement of each meeting and the Committee will determine if the participation of a Committee member should be limited because of a determined conflict of interest.

Conflicts are to be recorded in the minutes of the Committee meeting and in a Conflicts Register. Should a conflict cease this is to also be notified and the register updated.

Members and invitees having a real or perceived conflict of interest may not participate in any discussion on the conflicted matter.

3.8 Confidentiality

Unless required by law or the Constitution, all Committee discussions and documentation are confidential to the Committee, relevant staff, the auditor and the Board.

3.9 Secretariat

Administrative and secretarial support will be provided by [?] who will attend meetings and act as secretary to the Committee and assist in scheduling meetings, developing and distributing agendas, papers, and minutes.

3.10 Minutes

Minutes will be written, approved by the Chair and circulated to the members of the Committee and the Board, using any accepted technology, within 1 week of a meeting. The minutes will be subsequently ratified at the next meeting and signed by the Chair as a correct record.

The Committee may determine that minutes or part thereof may be kept confidential to the Committee and the Board.

3.11 Reporting

The Committee will report to the Board following each Committee meeting usually via the minutes unless special circumstances require different reporting.

If appropriate, the Committee shall provide an annual report to the Board including the results of the Committee annual self-assessment.

If appropriate, the Committee shall present a specific report with recommendations to the Board regarding adoption or rejection of the annual financial statements.

3.12 Reviews

The Committee shall:

- ☐ Undertake a self-assessment performance review annually, coordinated by the Chair.
- ☐ Annually review these Terms of Reference to ensure relevance, effectiveness and

consistency with the Strategic Plan.

- ☐ Seek Board approval for any proposed amendments to the Terms of Reference.

3.13 Other

Undertake such other related, relevant and appropriate activities that may be requested by the Board.

4 Last Updated

4.1 Approval and Review

Lead Author:	CEO
Date endorsed:	(Date)
Approved by:	The Board
Date approved:	(Date)
Timeframe for review:	12 months

4.2 Version History

Version	(Date)	Action
Version 1	(Date)	Created
Version 2	(Date)	Reviewed - minor updates
Version 3	(Date)	Rewrite

5 Disclaimer and Further Information

This is practical advice based on Associations Forum's work with associations and charities.

The contents of this Guide are provided as input for associations to develop their own Gifts & Benefits policy. These guidelines do not constitute legal advice and are not intended to be a substitute for legal advice. You should seek specialist advice in relation to any particular matters you or your organisation may have.

This Guide is the intellectual property of the Associations Forum and may not be published or circulated without its permission.

For assistance, please contact Associations Forum on +61 2 9904 8200.

© Associations Forum 2004-2024 V.May2022