



## Audit Committee

### Terms of Reference

#### 1. Constitution

The Board of Directors hereby resolves to establish a Committee to be known as the Audit Committee. The Committee is a non-executive Committee of the Board and has no executive powers other than those specifically delegated in these Terms of Reference.

#### 2. Duties

The Committee is responsible for:

##### a. Governance, risk management and internal control

The Committee shall review the establishment and maintenance of an effective system of integrated governance, risk management and internal control across the whole of the Trust's activities (both clinical and non-clinical) that supports the achievements of the Trust's objectives. It will provide an independent and objective view on internal control and probity. In addition, the Committee will monitor any formal announcements relating to its financial performance, reviewing significant financial reports and the judgements contained in them.

In particular the Committee will review the adequacy of:

- All risk and control related disclosure statements (in particular the Annual Governance Statement and declarations of compliance to external bodies), together with any accompanying Head of Internal Audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Board
- The underlying assurance processes that indicate the degree of the achievement of corporate objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements
- The policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements, licence requirements and related reporting and self-certification
- Finance-related policies and procedures including Standing Orders, Standing Financial Instructions, Scheme of Delegation
- The policies and procedures for all work related to fraud and corruption as required by the NHS Protect.
- The arrangements by which Trust staff may raise, in confidence, concerns about possible improprieties in matters of financial reporting and control, clinical quality, patient safety or other matters. In so doing the 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.

In carrying out this work the Committee will utilise the work of internal audit, external audit and other assurance functions but will not be limited to these sources. It will also seek reports and assurances from directors and managers as appropriate, concentrating on the overarching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness. This will be evidenced through the Committee's use of an effective Assurance Framework to guide its work and that of the audit and assurance functions that report to it.

## **b. Internal audit**

The Committee will ensure that there is an effective internal audit function established by management that meets public sector internal audit standards and NHS internal audit standards and provides appropriate independent assurance to the Audit Committee, Chief Executive and Board. This will be achieved by:

- Consideration of the provision of the internal audit service, the cost of the audit and any questions of resignation and dismissal
- Review and approval of the internal audit strategy, operational plan and more detailed programme of work, ensuring that this is consistent with the audit needs of the Trust as identified in the Assurance Framework
- Consideration of the major findings of internal audit work (and management's response) and ensuring coordination between internal and external auditors to optimise audit resources
- Ensuring that the internal audit function is adequately resourced and has appropriate standing within the Trust
- Annual review of the effectiveness of internal audit.
- Annual self-assessment of the Committee, facilitated by Internal Audit.

## **c. External audit**

The Committee shall review the independence, objectivity and work of the external auditor appointed by the Council of Governors and consider the implications and management's responses to their work. This will be achieved by:

- Consideration of the appointment and performance of the external auditor, including liaising with and making recommendations to the Council of Governors regarding the former
- The duration of each term will be three years with an option for an additional two years. Once the term has expired, the appointment must be subject to open tender.
- Discussion and agreement with the external auditor, before the audit commences, of the nature and scope of the audit as set out in the annual plan and ensure coordination with internal auditors and with other external auditors in the local health economy
- Discussion with the external auditors of their local evaluation of audit risks and assessment of the Trust and associated impact on the audit fee
- Review all external audit reports, including the report to those charged with governance, agreement of the annual audit letter before submission to the Board and any audit work performed outside the annual audit plan, together with the appropriateness of management responses
- Approval of the engagement of the external auditor in respect of non-audit work where the cost is over £5,000, taking into account relevant ethical guidance regarding the provision of such services. The Director of Finance will inform the Committee of any non-audit engagements below this figure and in all cases the Committee will report them to the Council of Governors
- Annual review of the effectiveness of external audit.

## **d. Other assurance functions**

The Audit Committee shall review the findings of other significant assurance functions, both internal and external to the Trust, and consider the implications to the governance of the Trust. It will review, appraise and report in accordance with Government Internal Audit Standards (GIAS) and best practice. These will include, but will not be limited to, reviews and reports by Department of Health arms length bodies or regulators/inspectors e.g. Care Quality Commission, NHS litigation Authority, etc), professional bodies with responsibility for the performance of staff or functions (e.g. Royal Colleges, accreditation bodies, etc), the Local Anti-Fraud Specialist (LCFS).

In addition the Committee will review the work of other committees within the Trust, whose work can provide relevant assurance to the Audit Committee's own scope of work. This will particularly include the Quality Committee and Operational Board. With regard to the former and issues around clinical risk management the Audit Committee will wish to satisfy itself on the assurance that can be gained from the clinical audit function.

The Committee will also review all suspensions of Standing Orders and variation or amendment to Standing Orders.

At each meeting, the Committee may wish to review any "red" rated risk from the Risk Register and may request it receives a presentation in person from the senior clinical / other professional responsible for addressing this particular risk.

The Audit Committee will report to the Board and to the Council of Governors any matters in respect of which it considers action or improvement is needed.

**e. Anti- fraud**

The Audit Committee shall satisfy itself that the Trust has adequate arrangements in place for countering fraud and will approve the appointment of the Local Anti-Fraud Specialist. The Committee will review the outcomes of Anti-fraud work.

**f. Management**

The Committee shall request and review reports and positive assurances from directors and managers on the overall arrangements for governance, risk management and internal control. They may also request specific reports from individual functions within the Trust (e.g. clinical audit) as they may be appropriate to the overall arrangements.

**g. Statutory reporting ( Financial & Quality Accounts )**

The Audit Committee shall review the Trust's annual report and associated accounting statements before submission to the Board, focusing particularly on:

- The wording in the Annual Governance Statement and other disclosures relevant to the Terms of Reference of the Committee
- Changes in, and compliance with, accounting policies, practices and estimation techniques
- Unadjusted mis-statements in the financial statements
- Major judgemental areas
- Significant adjustments resulting from the audit
- Letter of representation
- Qualitative aspects of statutory reporting

The Committee shall monitor the integrity of the accounting statements of the Trust and any formal announcements relating to the Trust's reported performance. The Committee should also ensure that the systems for both financial and qualitative reporting to the Board are subject to review as to completeness and accuracy of the information provided to the Board.

**3. Membership**

Membership will be appointed by the Board of Directors from amongst its Non-Executive members and will consist of not less than three members, at least one of whom should have recent and relevant financial experience. The Chair of the Quality Committee shall be a member of the Audit Committee

Members can participate in meetings by two-way audio link including telephone, video or computer link (excepting email communication). Participation in this way shall be deemed to constitute presence in person at the meeting and count towards the quorum.

The Board will appoint one of the members to be Chair and another Vice Chair from the outset. The Vice Chair will automatically assume the authority of the Chair should the latter be absent. The Chair of the Trust shall not be a member of the Committee.

**a. Quorum**

A quorum shall be two members.

**b. Voting**

Each member will have one vote with the Chair having a second and casting vote, if required. Should a vote be necessary a decision will be determined by a simple majority.

**c. Attendance by members**

Members will be required to attend a minimum of 50% of all meetings. The Committee shall be able to co-opt further members to the Committee for special purposes.

**d. Attendance by officers or others**

Either the Director of Finance or the Deputy Director of Finance and appropriate internal and external audit representatives shall normally attend meetings. At least once a year the Committee will meet privately with the external and internal auditors.

The Chief Executive and other executive directors will be invited to attend, particularly when the Committee is discussing areas of risk or operation that are the responsibility of that director.

The Chief Executive will also be required to attend when the Audit Committee discussed the process for assurance that supports the Annual Governance Statement

The Trust's Head of Corporate Affairs will be Secretary to the Committee and will attend to take minutes of the meeting and provide appropriate support to the Chair and the Committee members.

Officers of the Trust will be invited to attend the meeting as appropriate when an issue relating to their area of operation or responsibility is being discussed.

Governors may be invited to observe meetings of the Audit Committee.

#### **4. Accountability and reporting arrangements**

The Audit Committee will be accountable to the Board of Directors.

The minutes of the Audit Committee will be formally recorded and submitted to the Board of Directors. The Chair of the Audit Committee shall draw to the attention of the Board of Directors any issues that require disclosure to it, or require executive action.

The Audit Committee will refer to the other two Board governance Committees (the Quality Committee and the Operational Board) matters considered by the Committee deemed relevant for their attention. The Committee will consider matters referred to it by those two governance Committees.

The Audit Committee will receive reports from the Quality Committee regarding assurances relating to the effective operation of controls and in the event of a significant risk arising, the risk will be reported as per the Trust's integrated governance framework and risk management processes.

The Committee will report to the Board annually on its work and performance in the preceding year and, as part of this report, will provide commentary in support of the Annual Governance Statement, specifically dealing with the fitness for purpose of the Assurance Framework, the completeness and embeddedness of risk management in the Trust, the integration of governance arrangements and the appropriateness of the evidence compiled to demonstrate fitness to register with the Care Quality Commission and the robustness of the processes behind the quality accounts.

Trust Standing Orders and Standing Financial Instructions apply to the operation of the Audit Committee.

## **5. Frequency**

Meetings will normally be held bi-monthly.

The external auditor or Head of Internal Audit may request a meeting if they consider that one is necessary.

## **6. Authority**

The Audit Committee is authorised by the Board of Directors to investigate any activity within its Terms of Reference. The Committee is authorised to seek any information it requires from any employee and all employees are directed to cooperate with any request made by the Committee.

The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise, subject always to compliance with Trust delegated authorities.

## **7. Monitoring effectiveness**

The Committee will undertake an annual review of its performance against its duties in order to evaluate its achievements.

## **8. Administration**

The Committee shall be supported administratively by the Company Secretary whose duties in this respect will include:

- Agreement of the agenda with the Chair
- Collation and review of reports
- Distribution of agenda and reports to members in accordance with the Trust's corporate governance standards
- Taking the minutes of the meeting
- Preparing a record of actions
- Advising the Committee on pertinent areas.

## **9. Review**

These terms of reference will be reviewed at least annually by the Committee.

<b>Date reviewed by Committee</b>	March 2016
<b>Date approved by Board of Directors</b>	May 2016
<b>Review date</b>	March 2017

## **10. Version control**

<b>Version control</b>	<b>Date</b>	<b>Comments</b>
1	7 July 2010	Amends made by Audit Committee members and by Company Secretary following review of (as yet unpublished) Department of Health Audit Committee Handbook 2010
2	26 July 2010	Amends made by Audit Committee members and Deputy Director of Finance
3	27 July 2010	Further amends made by Audit Committee members
4	4 May 2011	Further amends made by Audit Committee members
5	6 March 2012	Further amends made by Audit Committee members
6	5 March 2013	Reviewed by Audit Committee
7	1st May 2014	Reviewed by Audit Committee, amendments agreed
8	5 <sup>th</sup> May 2015	Reviewed by Audit Committee, amendments agreed (references to anti-fraud and annual governance statement)
9	1st March 2016	Amendment to section 2a.
10	5 <sup>th</sup> July 2016	Addition of co-option of members to membership section.
11	2 <sup>nd</sup> May 2017	Amendments made as follows: <ul style="list-style-type: none"> <li>• Requirement for Chair of Quality Committee to be a formal member of the Audit Committee</li> <li>• Addition of Audit Committee Chair to have 'recent and relevant financial experience.'</li> <li>• Removal of reference to Operational Board in section 2a</li> <li>• Addition of reference to Licence requirements in section 2a.</li> <li>• Addition of Governor attendance in section 3d.</li> <li>• Addition of reference to Quality Committee reporting in section 4.</li> </ul>