

AUDIT COMMITTEE MEETING

28 November 2016

Paper Title:	Audit Committee Terms of Reference
Lead Director:	Audit Committee Chair
Paper Author:	Paul Hogg, Trust Secretary
Agenda Item:	13
Presented For:	Assurance

EXECUTIVE SUMMARY:

The Audit Committee has agreed that its Terms of Reference will be monitored by the Trust Secretary, reviewed annually by the Committee and reported in its Annual Report to the Board.

There are two minor proposed changes (in red) to add a reference to the Council of Governors role in appointing the external auditors; and a reference about NHS Improvement (now that Monitor and the NTDA have become one organization).

Audit Committee members are asked to consider any further changes they feel are necessary prior to submission to Trust Board.

FINANCIAL IMPLICATIONS:

None.

RECOMMENDATION:

That the Audit Committee:

- consider the Audit Committee's Terms of Reference at Appendix A and note the minor changes proposed.

Appendix A

Audit Committee

Terms of Reference

Document details:	Terms of Reference for the Audit Committee
Version:	7
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Date ratified:	22 December 2016
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Title of responsible Director:	Non-Executive Chair of Audit Committee
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Amendment Summary (changes highlighted in red):	Amendments reflect Council of Governors role in appointment of external auditors; and reference to NHS Improvement.

Terms of Reference for the Audit Committee

A. Overall aim or purpose:

The Board hereby resolves to establish a Committee of the Board to be known as the Audit Committee. The Audit Committee is a Non-Executive Committee of the Board and has no executive powers, other than those specifically delegated in these terms of reference.

B. Key objectives:

The Audit Committee shall provide the Trust Board with a means of independent and objective review of financial and corporate governance, and risk management. In addition, the Audit Committee shall provide assurance of independence for external and internal audit.

C. Specific areas of responsibility:

The Audit Committee is authorised by the Trust Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee. The Audit 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 if it considers this necessary.

The duties of the Audit Committee can be categorised as follows:

Governance, Risk Management and Internal Control

The Audit Committee shall review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the organisation's activities (both clinical and non-clinical), that supports the achievement of the organisation's objectives. In particular, the Audit Committee will review the adequacy of:

- all risk and control related disclosure statements (in particular the Annual Governance statement and declarations of compliance with Care Quality Commission registration (the latter led through the Quality & Safety Committee)), together with any accompanying Head of Internal Audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Trust 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; and
- the policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self-certification.

In carrying out this work the Audit Committee will primarily utilise the work of Internal Audit, External Audit and other assurance functions, but will not be limited

to these audit functions. 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 Audit Committee's use of an effective Assurance Framework to guide its work and that of the audit and assurance functions that report to it.

Internal Audit

The Audit Committee shall ensure that there is an effective internal audit function established by management that meets mandatory 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 organisation as identified in the Assurance Framework;
- consideration of the major findings of internal audit work (and management's response), and ensure co-ordination between the Internal and External Auditors to optimise audit resources;
- ensuring that the Internal Audit function is adequately resourced and has appropriate standing within the organisation; and
- annual review of the effectiveness of internal audit.

External Audit

The Audit Committee shall review the work and findings of the External Auditor appointed by KPMG 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, **in line with the Trust's Constitution and the statutory guide for Foundation Trust Governors;**
- 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, as appropriate, 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; and
- review all External Audit reports, including agreement of the annual audit letter before submission to the Trust Board and any work carried outside the annual audit plan, together with the appropriateness of management responses.

Counter fraud

The Committee shall satisfy itself that the organisation has adequate arrangements in place for countering fraud and shall review outcomes of counter fraud work. The Committee shall review the adequacy of the policies and procedures for all work related to fraud and corruption as set out in Secretary of State Directions and as required by the Counter Fraud and Security Management Service.

Other Assurance Functions

The Audit Committee shall review the findings of other significant assurance functions, both internal and external to the organisation, and consider the implications to the governance of the organisation.

These will include, but will not be limited to, any reviews by Department of Health Arms Length Bodies or Regulators/Inspectors (e.g. Care Quality Commission, **NHS Improvement**, NHS Litigation Authority, etc.), professional bodies with responsibility for the performance of staff or functions (e.g. Royal Colleges, accreditation bodies, etc.)

Management

The Audit 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 organisation (e.g. clinical audit) as they may be appropriate to the overall arrangements.

Financial Reporting

The Audit Committee shall monitor the integrity of the financial statements of the Trust and any formal announcements relating to the Trust's financial performance.

The Audit Committee shall review the Annual Report and Financial Statements before submission to the Trust 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 and practices unadjusted mis-statements in the financial statements;
- major judgemental areas;
- significant adjustments resulting from the audit;
- qualitative aspects of financial reporting; and
- letters of representation from Directors.

The Audit Committee should also ensure that the systems for financial reporting to the Trust Board, including those of budgetary control, are subject to review as to

completeness and accuracy of the information provided to the Trust Board.

D. Chair:

The Audit Committee shall be chaired by a Non-Executive Director appointed by the Trust Board. A second Non-Executive Director shall be identified to act as Deputy Chair.

E. Members:

The Audit Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Trust and shall consist of not less than three members. A quorum shall be two members. One of the members will be appointed Chair of the Committee by the Board. The Chairman of the organisation shall not be a member of the Committee.

F. Accountable to:

The Audit Committee is accountable to the Board. The minutes of the Audit Committee shall be formally recorded and submitted to the Trust Board. The Chair of the Audit Committee shall draw to the attention of the Board any issues that require disclosure to the full Board, or require executive action.

The Committee will report to the Board annually on its work in support of the Annual Governance Statement, specifically commenting on the fitness for purpose of the Assurance Framework, the completeness and 'embeddedness' of risk management in the organisation and the integration of governance arrangements.

G. Accountable for:

The Audit Committee will review the work of other Board Committees within the organisation, whose work can provide relevant assurance to the Audit Committee's own scope of work. This will include the Finance, Business and Investment Committee and the Quality and Safety Committee.

In reviewing the work of the Quality and Safety Committee, 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.

H. Roles

The role of the Chair is undertaken via a nominated Non-Executive Director. Minutes and administration of the meeting is undertaken through the Trust Secretary, whose duties in this respect will include:

- Agreement of the agenda with the Chairman and attendees and collation of papers;
- Taking the minutes and keeping a record of matters arising and issues to be carried forward; and
- Advising the Committee on pertinent issues.

I. Frequency of Meetings:

Meetings shall be held between three and six times a year. The External Auditor or Head of Internal Audit may request a meeting if they consider that one is necessary.

J. Frequency of Attendance:

All Committee members will be expected to attend the meeting at least three times annually. Attendance will be monitored by the Trust Secretary.

The Director of Finance and appropriate Internal and External Audit representatives shall normally attend meetings. However, at least once a year the Committee should meet privately with the External and Internal Auditors.

The Chief Executive and other Executive Directors should be invited to attend, but particularly when the Committee is discussing areas of risk or operation that are the responsibility of that Director. The Chief Executive should also attend when the Committee considers the draft Internal Audit Plan and the draft Annual Report, **Accounts and Quality Report**.

NB. The Chief Executive should have a standing invitation to attend the meeting and as a minimum will need to attend the meeting annually, to discuss the process for assurance that supports the Annual Governance Statement.

K. Quorum:

The Committee will be considered quorate where two Non-Executive Directors are present.

L. Record Keeping:

Archives of minutes and papers relating to the Audit Committee are kept on the Trust shared drive.

M. Lifespan of meeting:

The Audit Committee is a standing committee of the Trust Board. It will continue to meet in accordance with these Terms of Reference until the Trust Board determines otherwise.

N. Monitoring arrangements

All elements of the Audit Committee Terms of Reference will be monitored by the Trust Secretary, reviewed annually by the Committee and reported in its Annual Report to the Board. The Committee may choose to invite external organisations and individuals to present issues and reports from time to time.