

## Terms of Reference – Audit Committee

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16/02/2011	1	Trust Secretary	Draft	Draft for consideration by the members of the Audit and Assurance Committee
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05/10/2016	8	Trust Secretary	Minor	Revised terms of reference for consideration by the Audit Committee 18 October 2016.
10/10/2017	9	Deputy Trust Secretary	Moderate	Revisions to <ul style="list-style-type: none"> <li>a) Clarify existing practice,</li> <li>b) Ensure terms of reference reflect ICSA guidance/best practice.</li> <li>c) Reflect input from the Internal and External Auditors,</li> <li>d) Reflect input from the Chair [and the members] of the Committee</li> <li>e) Include minor grammatical corrections.</li> </ul>
28/11/2018	10	Trust Secretary and AC Chair	Moderate	Inclusion of Context Section & Stakeholder Analysis.  Re-organisation of Section on Duties  Clarification re key deliverables
27/10/20	11	Head of Corporate governance	Minor	Reviewed post-merger and titles updated.

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## 1. Constitution of the Committee

- 1.1. The Audit Committee (AC) is a statutory Committee established by the Board of Directors to monitor, review and report to the Board on the suitability and efficacy of the Trust's provisions for Governance, Assurance and Risk Management.

## 2. Context

### Stakeholder Community

- 2.1 The Audit Committee's primary responsibility is to the Board of Directors, as detailed above. However, in order to discharge these responsibilities appropriately the AC must work in close partnership with a number of internal and external Stakeholders. These Stakeholders influence the work of the AC by:

- establishing external benchmark standards and requirements
- providing insights on current and emerging risks
- providing / receiving assurance on the suitability and efficacy of the Trust's approach.

- 2.2 The Stakeholders of the Audit Committee are identified below:

#### Internal (accountable to)

- Board of Directors
- Council of Governors
- Accounting Officer (CEO of the Trust)
- Director of Finance and Information

#### Internal (peer)

- People Committee
- Quality and Outcomes Committee
- Finance & Digital Committee

#### Internal (reporting to AC)

- Internal Audit (sub-contracted)
- Local Counter Fraud Specialist (sub-contracted)
- Local Security Management Specialist
- Clinical Audit
- Freedom to Speak Up Guardian

#### External

- External Audit
- National Audit Office
- HM Treasury
- Freedom to Speak Up National Guardian
- NHS Counter Fraud Authority

### Stakeholder Analysis

- 2.3 The Terms of Reference and the responsibilities of the AC are critically dependent on an accurate understanding of the Stakeholder community and their associated requirements, especially any deliverables that are required, either from or by the AC.
- 2.4 The following table provides an analysis of the requirements and dependencies associated with the AC's Stakeholder Community.
- 2.5 **Requirements from AC** - Explains what the Audit Committee is required to do based on the requirements of the stakeholder.

**2.6 Inputs into AC** - Explains what needs to be provided into the Audit Committee to allow it to fulfil the requirements of the stakeholder.

Internal Stakeholder Community					
Stakeholder	Requirements from AC		Inputs to AC		Section Reference
	General	Formal Deliverables	General	Formal Deliverables	
Board of Directors	Feedback on emerging risks	AC Chair Report (after each meeting)  AC Annual Report  Feedback on the risk management process and specifically the risks held within the BAF and Trust Risk registers  Feedback on the overall Annual Report, including the Quality Report	Identification of emerging risks  Recommendations for Internal Audit  Approve Terms of Reference	Quality Report	7.3 7.10 7.11 8.8 8.11
Council of Governors	Updates at Governors Constitution Focus Group	Recommendation to appoint, re-appoint or remove the external auditor  Performance evaluation of the External Auditors  Audit Committee draft Terms of Reference for consultation	None	Authorisation to appoint agreed external auditor	7.5 7.12
Accounting Officer	None	Submission for Annual Governance Statement	None	Draft Annual Report (for AC review)  Identification and status of Trust Hosted Services (annually)	7.3
Director of Finance and Information	None	None	Identification of emerging risks (Finance, IT)  Recommendations for Internal Audit	Accounting Policies  Draft Annual Accounts  Inputs to Annual Report including FD Report, Accounting Policies, TACs Summarisation Schedules, Single Estimates)  Losses and Special payments report (each mtg)  Single Tender	7.7

Internal Stakeholder Community					
				Report (each mtg)	
People Committee	None	Results of relevant Internal Audits	Chair's Report (each mtg)	None	7.3.7
Quality and Outcomes Committee	None	Results of relevant Internal Audits	Chair's Report (each mtg)	None	7.3.7
Finance & Digital Committee	None	Results of relevant Internal Audits	Chair's Report (each mtg)	None	7.3.7
Internal Audit (sub-contracted)	Requirements for Internal Audit (including Freedom to Speak Up issues)  Feedback on Reporting	None	None	Internal Audit Plan (annual)  Internal Audit Reports (each mtg) Progress Report (each mtg)  Head of Internal Audit Opinion (for reference in the Annual Governance Statement – part of the Annual Report)	7.4
Local Counter Fraud Specialist (sub-contracted)	None	None	None	Annual Plan  Annual Report  Progress report (each mtg)	7.8
Local Security Management Specialist	None	None	None	Progress report (each mtg)	7.8
Clinical Audit (more regular reports via QOC)	None	None	None	Annual Clinical Audit Report	7.6
Freedom to Speak Up Guardian	None	None	None	Annual Report	7.9

External Stakeholder Community					
Stakeholder	Requirements from AC		Inputs to AC		Section Reference
	General	Deliverables	General	Deliverables	
External Audit	Guidance on possible scope of annual audit  Informal communication on external audit activities (Without Executives present)			Audit Report (ISA 260 Report)  Trust Accounts Consolidation Schedules  Management Letter of Representation,  Quality Report Management representation letter  Assurance Report on the Trusts Quality Report  Report to the Council of	7.5

External Stakeholder Community					
				Governors on Trusts Quality Report (annually)	
NHSI	None	Escalation in those instances where the services of the External Auditor are terminated in disputed circumstances. Escalation where exceptional, serious and improper activities have been revealed by the Committee, if insufficient action has been taken by the Board of Directors after being informed of the situation.	None	NHS Code of Governance	7.13 7.14
National Audit Office	None	None	None	Code of Audit Practice	7.1
HM Treasury	None	None	None	Audit and risk assurance committee handbook	7.1
Freedom to Speak Up National Guardian	None	None	None	Guidance for boards on Freedom to Speak Up in NHS trusts and NHS foundation trusts	7.9
NHS Counter Fraud Authority	None	None	None	Counter Fraud Standards for NHS Providers	7.8

### 3. Responsibilities

3.1 As stated above, the purpose of the Audit Committee is to ensure the suitability and efficacy of the Trust's provisions for Governance, Assurance and Risk Management. The activities of the AC are therefore focused on the Policies and Processes of the Trust:

- Definition
- Implementation
- Outcomes

and especially on the approach to Enterprise Risk Management, that is the identification and management of Operational and Strategic Risks which might impact on the Trust's principle objectives.

3.2 The **primary responsibilities** of the Audit Committee are therefore to:

1. Review and seek assurance of the Trust's approach to Risk Management and internal control
2. Monitor and review the effectiveness of the internal audit function,
3. Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process
4. Seek assurance about Clinical Audit activity

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- 3.3 In addition, the AC has specific responsibilities which it undertakes on behalf of the Board with respect to:
- 5. Integrity of Financial Reporting
  - 6. Activities to Identify and Counteract Fraud
  - 7. Ensuring the effectiveness of the Freedom to Speak Up Policy
- 3.4 Finally, the AC must:
- 8. Communicate and report effectively to all its Stakeholders
- 3.5 Each of these responsibilities is covered in more detail in section 7. The performance of the Audit Committee is most clearly evidenced by the degree of Stakeholder Satisfaction.

#### **4. Authority**

- 4.1 The Committee is authorised by the Board to investigate any activity within its terms of reference and to seek any information it requires from any officer of the Trust and to call any employee to be questioned at a meeting of the Committee as and when required.
- 4.2 This will include, but is not limited to:
- Evaluating the integrity of the financial statements of the Trust, any formal announcements relating to the trust's financial performance, and reviewing significant financial reporting judgements contained in them
  - Independently and objectively monitor, review and report to the Board on the adequacy of the policies and processes for governance, assurance, and risk management
  - Facilitate the effective implementation of an internal and external audit plan, and so the development, maintenance and implementation of Trust Policies and Processes
  - Obtain whatever professional advice it requires (as advised by the Trust Secretary);
- 4.3 Since the Audit Committee is a Non-executive Committee of the Board of Directors it has no executive powers, other than those specifically delegated in these Terms of Reference.

#### **5. Membership and attendance**

- 5.1 Members of the Committee shall be appointed by the Board of Directors and shall number at least three.
- 5.2 All members of the Committee shall be independent Non-executive Directors.
- 5.3 The Committee should identify and agree with the Board of Directors the skills required for Committee effectiveness. These skills will include governance, assurance and risk.
- 5.4 At least one member of the Committee should have recent and relevant financial experience sufficient to allow them to competently analyse the financial statements and understand good financial management disciplines.
- 5.5 The Chairs of the People, Finance & Digital and the Quality and Outcomes Committees will usually be members unless this does not meet the skills and experience requirements of the Committee.



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- 5.6 Where the Chairs of the other Board Committees are not members (see above), then they will be invited to attend the meetings.
- 5.7 The Chair of the Board of Directors shall not be a member of the Committee and should limit his/her attendance to one meeting per annum to support the evaluation of the effectiveness of the Committee.
- 5.8 Only members of the Committee have the right to attend Committee meetings. However non-committee members may be invited to attend and assist the committee from time to time.
- 5.9 Members may nominate a deputy to attend where they are unavailable. The deputy must be agreed with the Chair of the Committee and must be an Independent Non-Executive Director of the Trust.
- 5.10 In the absence of the Committee Chair and/or an appointed deputy, the remaining members present shall elect one of themselves to chair the meeting.
- 5.11 External Audit and Internal Audit representatives shall be invited to attend all meetings of the AC. At least once a year the Committee should meet privately with the External and Internal Auditors.
- 5.12 The Director of Finance & Information shall normally attend meetings.
- 5.13 The Chief Executive and other Executive Directors should be invited to attend as appropriate. The Chief Executive (or his/her nominated deputy) shall be required to attend the review of the Annual Governance Statement.
- 5.14 The Committee Secretary shall be the Director of Corporate Governance or his/her nominated deputy. The Director of Corporate Governance or his/her nominated deputy shall attend all meetings of the Committee.

## **6. Quorum**

- 6.1 The quorum necessary for the transaction of business shall be three members, all of whom must be independent Non-Executive Directors. A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.

## **7. Duties**

- 7.1 The Committee shall undertake the duties detailed in the HM Treasury's Audit and Risk Assurance Committee Handbook, with reference to the NHSI Code of Governance and with regard to the National Audit Office Code of Audit Practice, see references in section 9. In addition the HFMA's NHS Audit Committee Handbook maybe taken into consideration to determine the governance of the Committee.
- 7.2 The following sections provide more detail of the specific duties, associated with the responsibilities of the Committee as outlined in section 3.

### ***Review and seek assurance of the Trust's approach to Risk Management and internal control***

- 7.3 The Committee shall

7.3.1 Review the establishment and maintenance of an effective system of integrated governance, assurance and risk management across the whole of the Trust's activities (both clinical and non-clinical) that supports the achievement of both the organisation's Strategic and Operational Objectives; this includes a review of the Board Assurance Framework, Strategic and Operating Plans and the associated Trust Risk Registers.

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7.3.2 Review the policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements;

7.3.3 Work with Internal and External Audit leadership teams to establish the level of compliance with External Legal and Regulatory Requirements and Trust Policies and Processes and to identify any associated risks.

7.3.4 Review any Governance, Assurance and Risk related disclosure statements, in particular the Annual Report, including the Quality Report and annual statements made by the Internal and External Auditors to ensure that any risks or gaps in controls are identified and appropriate actions are taken;

7.3.5 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. These will include, but not be limited to, any reviews undertaken by the Department of Health Arms-Length Bodies, Regulators, other Trust Committees as well as professional bodies with responsibility for the performance of staff or functions.

7.3.6 Review the scope and status of services hosted by our Trust on an annual basis to identify whether there are any emerging risks which might impact on the Trust's reputation

7.3.7 Review the work of other Committees within the organisation, whose work can help identify current and emerging risks and provide relevant assurance to the Audit Committee's own scope of work

7.3.8 Review the work of the Estates Leadership Team with respect to ensuring Regulatory and Legal Compliance, especially with respect to Emergency preparedness, Business Continuity and Safety (called up in ABC)

7.3.9 Receive regular reports from the Chair of the Risk Management Group (included in ABC)

***Monitor and review the effectiveness of the internal audit function***

**7.4 The Committee shall:**

7.4.1 Ensure that there is an effective Internal Audit function that provides appropriate independent assurance to the Committee, Chief Executive and Board of Directors;

7.4.2 Consider and approve the Internal Audit strategy and annual plan and ensure it has adequate resources and access to information, including the Board Assurance Framework, and ensure coordination between Auditors to optimise use of audit resource;

7.4.3 Ensure the function has adequate standing and is free from management or other restrictions;

7.4.4 Review promptly all reports on the Trust from the Internal Auditors including the Executive Management's responsiveness to the findings and recommendations of reports

7.4.5 Ensure the People, Quality and Outcomes and Finance & Digital Committees have full visibility of Audit reports that might impact on their work

7.4.6 Meet the Head of Internal Audit at least once a year, without management being present, to discuss their remit and any issues arising from the internal audits carried out. The Head of Internal Audit shall be given the right of direct access to the Chair of the Committee, Chief Executive, Board of Directors and to the Committee;

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7.4.7 Conduct a review of the effectiveness of Internal Audit services once every year

***Review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process***

7.5 The Committee shall:

7.5.1 Consider and make recommendations to the Council of Governors, in relation to the appointment, re-appointment and removal of the Trust's External Auditor;

7.5.2 Work with the Council of Governors to manage the selection process for new auditors and, if an auditor resigns, the Committee shall investigate the issues leading to this, and make any associated recommendations to the Council of Governors;

7.5.3 Receive assurance of External Auditor compliance with the Audit Code for NHS Foundation Trusts;

7.5.4 Approve the External Auditor's remuneration and terms of engagement including fees for audit or non-audit services and the appropriateness of fees, to enable an adequate audit to be conducted;

7.5.5 Agree and review the policy regarding the supply of non-audit services by the External Auditor and monitor that service, taking into account relevant ethical guidance;

7.5.6 Review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit process annually. In particular, the Committee will review the work and findings of the External Auditors and consider the implications and management's responses to their work;

7.5.7 Meet the external auditor at least once a year, without management being present; to discuss their remit and any issues arising from the audit;

7.5.8 Discuss and agree with the External Auditors, before the audit commences, the nature and scope of the audit, as set out in the annual plan;

7.5.9 Discuss with the External Auditors their evaluation of audit risks and assessment of the Trust, and

7.5.10 Review all External Audit reports, including the report to those charged with governance (before its submission to the Board of Directors) and any work undertaken outside the annual audit plan, together with the appropriateness of management responses;

***Seek assurance about Clinical Audit activity***

7.6 The Committee shall:

7.6.1 The Committee shall work with the Chair of the Quality and Outcomes Committee to review issues around clinical risk management and ensure that the Clinical Audit function is positioned to effectively identify and facilitate the mitigation of clinical risks

7.6.2 The Committee will receive the Clinical Audit Annual Plan and Annual Report and receive regular updates on progress made by clinical audit throughout the year.

***Integrity of Financial Reporting***

7.7 The Committee shall:

7.7.1 Ensure the integrity of the annual report, summary financial statements, and all other significant financial statements submitted by the Trust to external stakeholders. In reaching a view on the accounts, the Committee should consider:

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- key accounting policies and disclosures
  - assurances about the financial systems which provide the figures for the accounts
  - the quality of the control arrangements over the preparation of the accounts
  - key judgements made in preparing the accounts
  - any disputes arising between those preparing the accounts and the auditors

7.7.2 Review these Financial Statements to identify significant issues and judgements and ensure actions are implemented as appropriate

7.7.3 Review the consistency of, and changes to, accounting policies both on a year on year basis and across the Trust and its subsidiary undertakings;

7.7.4 Review whether the Trust has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor; and

7.7.5 Review at each meeting, reports detailing:

- Losses and special payments
- Single Tender Actions (i.e. procurement without competition)

### ***Activities to Identify and Counteract Fraud***

7.8 The Committee shall:

7.8.1 Ensure that there is an effective Counter Fraud function that that meet the required NHS Counter Fraud Authority standards

7.8.2 Consider and approve the Counter Fraud strategy and annual plan and ensure it has adequate resources and access to information to undertake its activities

7.8.3 Undertake regular reviews of the work undertaken to counter fraud and to establish effective security arrangements of the Trust's assets

7.8.3 Undertake an Annual Review of the Board's Register of Interests (called up in ABC)

7.8.4 Undertake an Annual Review of the Trust Wide Register of Interests, Gifts and Hospitality

7.8.5 Conduct a review of the effectiveness of Counter Fraud services every year

### ***Ensuring the effectiveness of the Freedom to Speak Up Policy***

7.9.1 The Committee shall monitor and receive assurance on compliance with the Trust's Freedom to Speak Up Policy and ensure that the policy allows for proportionate and independent investigation of such matters and appropriate follow-up action. This will be achieved by the Committee receiving an Internal Audit review of the Trust's arrangement for staff to raise issues on an annual basis.

### ***Reporting to Board and other Stakeholders***

7.10 The Committee Chair shall prepare and submit a written report after each Audit Committee for review and discussion at the proceeding Board of Directors meeting to:

- Provide assurance that an appropriate system of governance is in place
- Identify any emerging Risks associated with the Trust's System of Governance

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and its approach to Assurance and Enterprise Risk Management

- Inform the Board of any key decisions that have been taken or actions that have been placed

7.11 In addition, the Committee, having considered its effectiveness, will produce an Annual Report which will be developed in accordance with the Trust's requirements and will include:

- Details of how the committee is discharging its responsibilities.
- Reference to any non-audit services provided by the external auditors, and if so, how auditor objectivity and independence is safeguarded;
- Details of the full auditor appointment / contract termination processes (including the position of the Council of Governors with regard to the decisions taken) and the Committee's reasons for any decisions taken
- The signature of the Chair of the Audit Committee.

### ***Reporting to Other Stakeholders***

7.12 The Committee shall make necessary recommendations to the Council of Governors on areas relating to the appointment, re-appointment and removal of External Auditors, the level of remuneration and terms of engagement

The Chair of the Committee shall write to the Independent Regulator of NHS Foundation Trusts (NHS Improvement) in those instances where the services of the External Auditor are terminated in disputed circumstances.

Where exceptional, serious and improper activities have been revealed by the Committee, the Chair of the Committee shall write to NHS Improvement, if insufficient action has been taken by the Board of Directors after being informed of the situation.

## **8. Administration**

- 8.1 The Committee shall meet a minimum of four times a year and at such other times as the Chair of the Committee, in consultation with the Committee Secretary, shall require allowing the Committee to discharge all its responsibilities.
- 8.2 Meetings of the Committee shall be called by the Secretary of the Committee at the request of the Committee Chair. The Board of Directors, Chief Executive, External Auditors or Head of Internal Audit may request an additional meeting if they consider it necessary.
- 8.3 Trust Secretariat shall provide secretariat services to the Committee and shall provide appropriate support to the Chair and Committee members as required.
- 8.4 Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, shall be made available to each member of the Committee, no less than five working days before the date of the meeting.
- 8.5 Supporting papers, detailing their purpose for inclusion and the actions / decisions that are expected of the Committee shall be made available no later than three working days before the date of the meeting.
- 8.6 The secretary shall minute the proceedings of all Committee meetings and maintain an

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“actions arising log”. Draft minutes and the actions arising shall be issued promptly to the Chair of the Committee, for review, before formal issue

- 8.7 The secretary shall ascertain, at the beginning of each meeting, the existence of any conflicts of interest and minute them accordingly.
- 8.8 The Committee shall, at least once a year, review its own performance to ensure it is operating at maximum effectiveness. The Committee shall consider the use of the HFMA’s Audit Committee Self-Assessment Checklist for this purpose.
- 8.9 All papers (notices, agendas, supporting papers and minutes) will be sent in electronic form, except where the recipient has specifically requested to receive documents in paper format.
- 8.10 The Director of Corporate Governance and Committee Chair shall develop and maintain an Annual Business Cycle detailing the standing agenda items required at each meeting throughout the year in order to discharge the duties detailed herein.
- 8.11 The Committee shall review its own terms of reference annually.

## **9. External References**

HM Treasury - Audit and risk assurance committee

handbook [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/512760/PU1934\\_Audit\\_committee\\_handbook.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/512760/PU1934_Audit_committee_handbook.pdf)

NHS Code of

Governance [https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment\\_data/file/327068/CodeofGovernanceJuly2014.pdf](https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/327068/CodeofGovernanceJuly2014.pdf)

National Audit Office - Code of Audit Practice

<https://www.nao.org.uk/code-audit-practice/>

NHS Counter Fraud Authority – Standards for NHS Providers

[https://cfa.nhs.uk/resources/downloads/standards/NHS\\_Fraud\\_Standards\\_for\\_Providers\\_2018.pdf?v=1.0](https://cfa.nhs.uk/resources/downloads/standards/NHS_Fraud_Standards_for_Providers_2018.pdf?v=1.0)

HFMA – NHS Audit Committee Handbook (available on request from the Trust Secretary)