

AUDIT COMMITTEE TERMS OF REFERENCE

1. CONSTITUTION

- 1.1 The Trust Board hereby resolves to confirm the constitution of a Committee of the Trust Board to be known as the Audit Committee (The Committee), which is directly accountable to the Trust Board.
- 1.2 The Committee is a non-executive committee of the Trust Board and has no executive powers, other than those specifically delegated in these terms of reference.
- 1.3 All procedural matters in respect of conduct of meetings shall follow the Trust's Standing Orders.

2. MEMBERSHIP

- 2.1 The Committee shall be appointed by the Board from amongst the Non-Executive Directors of the Board and shall consist of not less than three independent Non-Executive Directors ². The membership shall include representation from other Board Committees.
- 2.2 The Chair of the Trust shall not be a member of the Committee.
- 2.3 A quorum shall be two members.
- 2.4 The Chair of the Committee shall be appointed by the Board.

3. ATTENDANCE AT MEETINGS

- 3.1 All members are expected to attend each meeting.
- 3.2 The Finance Director, the Head of Internal Audit, and a representative of the external auditors shall normally attend meetings. The Committee has the right to meet with the internal or external auditors without Executive Board members being present.
- 3.3 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.
- 3.4 The Chief Executive should be invited to attend, at least annually, to discuss with the Audit Committee the process for assurance that supports the Annual Governance Statement.

² For this purpose, the Trust shall adopt the definition of independence as set out in the NHS Foundation Trust Code of Governance

- 3.5 The Committee Secretary shall be nominated by the Chairman of the Committee. The Committee Secretary need not be a Non-Executive Director, although alternative arrangements will need to be effected when the Committee meets with only Non-Executive Directors present.

4. FREQUENCY OF MEETINGS

- 4.1 Meetings shall be held not less than four times a year. The External Auditors or the Head of Internal Audit, Chair or any other Non-Executive Director may request a meeting if they consider that one is necessary.

5. AUTHORITY

- 5.1 The Committee is authorised by the 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 requests made by the Committee.
- 5.2 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 if it considers this necessary.

6. DUTIES

- 6.1 The duties of the Committee can be categorised as follows:

Governance, Risk Management and Internal Control

- 6.2 Whilst recognising the Committee has an overriding and absolute responsibility for reviewing financial controls, the Committee shall also 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.

- 6.3 In particular, the Audit Committee will review the adequacy of:

- All risk and control related disclosure statements (in particular the Annual Governance Statement), 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
- The policies and procedures for all work related to fraud and corruption as set out in Secretary of State's Directions and as required by the Counter Fraud and

Security Management Service

- Arrangements by which staff may raise, in confidence, concerns about possible improprieties in matters of financial reporting and control, clinical quality, patient safety or other matters (Whistleblowing Policy and Procedure). The Committee should ensure that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action.
- 6.4 In carrying out this work the 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 over-arching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.
- 6.5 This will be evidenced by the receipt of Internal Audit reviews of Risk Management, Control & Review Processes to support the Annual Governance Statement, and consideration of the Board Assurance Framework when approving the Internal Audit programme.

Internal Audit

- 6.6 The Committee shall ensure that there is an effective Internal Audit function established by management that meets Mandatory Public Sector 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 Board 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.
 - Monitoring the implementation of recommendations resulting from Internal Audit reports.
 - Annual review of the effectiveness of Internal Audit.

External Audit

- 6.7 The Committee shall ensure compliance with the National Health Service Act 2006 and the Audit Code for NHS Foundation Trusts in relation to the appointment and provision of an external audit service.
- 6.8 The Committee should make recommendations to the Council of Governors in relation to the appointment, re-appointment and removal of the External Auditor and approve the remuneration and terms of engagement of the External Auditor.

6.9 The Committee shall review the work and findings of the External Auditor appointed by the Council of Governors and consider the implications and management's response to their work. This will be achieved by:

- Assessing the External Auditor's work and fees on an annual basis to ensure that the work is of a sufficiently high standard and that the fees are reasonable, including the use of performance measures, as appropriate.
- Reviewing and monitoring the External Auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements.
- Making recommendations to the Council of Governors with respect to the re-appointment of the External Auditor, following the annual assessment.
- 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 co-ordination, 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 of the audit fee
- Review all External Audit reports, including agreement of the annual audit letter before submission to the Board and any work carried outside the annual audit plan, value for money reports and management letters, together with the appropriateness of management responses.
- Monitoring the implementation of recommendations resulting from external audit reports.
- If required, develop and implement a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

Local Counter Fraud Specialists

6.10 The Committee shall ensure that there is an effective and appropriate Local Counter Fraud Specialist function in place in the Trust. It should:

- Receive the annual work plan and annual report.
- Ensure the independence of the function.
- Ensure that the function is adequately resourced.
- Consider findings derived from both internal cases and any national initiatives.
- Receiving a report of all cases involving fraud

Losses and Special Payments

6.11 By virtue of Standing Financial Instruction (SFI) 15.2 the Chief Financial Officer must

prepare procedural instructions on the recording of and accounting for condemnations, losses, and special payments. The Committee shall monitor this function by reviewing the Trust's Register of Losses and Special Payments.

Financial Reporting

- 6.12 The Committee shall monitor the integrity of the financial statements of the Trust, and any formal announcements relating to the Trust's financial performance, reviewing significant financial reporting judgements contained in them.
- 6.13 This will be achieved by reviewing the Annual Report and Financial 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 and practices
 - Unadjusted mis-statements in the financial statements
 - Major judgmental areas
 - Significant adjustments resulting from the audit
 - Compliance with the NHS Foundation Trust Financial Reporting Manual
- 6.14 The Committee should recommend to the Board as to whether the annual financial statements should be adopted by the Board.
- 6.15 The Committee ensure that the systems for financial reporting to the Board, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Board.

Accounting Policies

- 6.16 To review, approve and keep up-to-date accounting policies of the Trust to ensure that they are fit-for-purpose for an NHS Foundation Trust.

7. DOCUMENTATION DEALING WITH PROBITY

- 7.1 To review comprehensiveness of documents dealing with probity including Standing Financial Instructions, Standing Orders, Standards of Business Conduct and Counter Fraud.
- 7.2 To update such documents in line with Department of Health guidelines and recommendations.
- 7.3 The Committee shall review all Board decisions to suspend Standing Orders, in accordance with SO s3.8.8.
- 7.4 The Committee shall review all waivers of Standing Orders in respect of competitive quotation and tendering procedures.

8. REPORTING

- 8.1 The minutes of the Committee meetings shall be formally recorded and submitted to the following Board meeting and the following Quality Assurance Committee meeting.
- 8.2 The Committee shall receive the minutes of the Quality Assurance Committee. Quality Assurance Committee members will identify any issues that affect the work of the Audit Committee.
- 8.3 The Chair of the Committee shall draw to the attention of the Board any issues that require disclosure to the full Board, or require executive action.
- 8.4 In particular, the Chair of the Committee shall disclose any evidence of *ultra vires* transactions or improper acts to the Board, in accordance with SFI s2.1.2.
- 8.5 The Committee shall also report to the Council of Governors, identifying any matters in respect of which it considers that action or improvement is needed and making recommendations as to the steps to be taken.
- 8.6 The Committee will report to the Board annually on its work in support of the Annual Governance Statement, in advance of the Board meeting to agree the Annual Report and Accounts.

9. COMMITTEE SECRETARY

- 9.1 The Committee will be supported administratively by the Committee Secretary, whose duties in this respect will include:
 - Agreement of agenda with Chair and attendees and collation of papers.
 - Taking the minutes and keeping a record of matters arising and issues to be carried forward.
 - Advising the Committee on pertinent areas.
 - Under the direction of the Chair, drafting the Committee's annual report.
 - Keeping a record of attendance at meetings.
- 9.2 The Trust Secretary will ensure that these terms of reference are compliant with NHSLA risk management standards, and monitor compliance with the standards.

Last reviewed: 17 January 2017

Next review date: March 2018 by the Committee / [May 2018 by the Board]