

Audit Committee Terms of Reference

Agenda Item: 14.2
Reference: 12B.012



Board Meeting: 30 January 2012

<p>Summary</p>	<p>The Audit Committee Terms of Reference have been revised to meet NHSLA Risk Management Standard 1, Criterion 3: “the organisation has approved documented terms of reference for the high level committee with overarching responsibility for risk that are implemented and monitored.”</p> <p>The following sections of the Terms of Reference have been amended (as highlighted in yellow):</p> <ul style="list-style-type: none"> • Membership • Quorum • Frequency of meetings and attendance • Officers and representatives in attendance • Reporting of other arrangements of other committees and groups • Reporting arrangements to the Board • Annual Review of the Audit Committee • Monitoring Compliance <p>In addition to meeting NHSLA requirements, the following revisions have also been made:</p> <ul style="list-style-type: none"> • A new section has been included titled “Emergency Powers.” This allows for urgent decision making in between scheduled meetings. • Amendments have been made in relation to integrated governance, ensuring integrated assurance systems are in place. <p>These revised Terms of Reference were reviewed and agreed by the Audit Committee at their meeting in January 2012.</p>
<p>Key Issues to be considered</p>	<p>The Board is asked to consider that the revised Terms of Reference meets NHSLA requirements and that all amendments have sufficient clarity and relevance.</p>
<p>Actions required</p>	<p>The Board is asked to approve the Audit Committee Terms of Reference.</p>
<p>Accountable Executive Director</p>	<p>Trevor Smith, Director of Finance</p>
<p>Author of Paper</p>	<p>Emma Farlow, Finance Governance Lead</p>
<p>Date prepared</p>	<p>19 January 2012</p>

Audit Committee Terms of Reference

1. Introduction

- 1.1 In accordance with Standing Order 4.8.1 the Trust has established an Audit Committee as a standing Sub-Committee of the Board.

2. Membership

- 2.1. With the exception of the Chair of the Committee, the Committee shall be appointed by the Board from amongst the Non-Executive Directors.
- 2.2. One of the Non-Executive members will be appointed Chair of the Committee by the NHS Appointments Commission.
- 2.3 The Committee shall comprise at least four Non-Executive Directors, including the Chair of the Committee.
- 2.4 In cases of absence, the Chair of the Committee will nominate a NED member who will deputise. Failing this, those present shall appoint a NED member as chair for that meeting from amongst their number.
- 2.5 The Chair of the organisation shall not be a member of the Committee.

3. Quorum

- 3.1. The quorum shall be two Non-Executive Directors.

4. Frequency of meetings and attendance

- 4.1. A minimum of four scheduled meetings shall be held per year.
- 4.2. Additional meetings may be called by the Chair of the Committee, or in the absence of the Chair, by a minimum of two non-executive members.
- 4.3. The External Auditor or Head of Internal Audit may make a request to the Chair of the Committee to convene an additional meeting if they consider that one is necessary.
- 4.4. Members of the Committee should make every effort to attend all meetings of the Committee and as a minimum, are expected to attend at least two meetings in a calendar year. The Secretary to the Committee will monitor attendance and will report this to the Committee annually.

5. Officers and representatives in attendance

- 5.1 The Director of Finance and appropriate representatives from Internal and External Audit, the local Counter Fraud Service and the Local Security Management Specialist shall normally attend meetings. However at least once a year the Committee should meet privately with the External and Internal Auditors.
- 5.2 The Chief Executive and other Executive Directors shall be invited to attend, and in particular when the Committee is discussing areas of risk or operation that are the responsibility of that Director.
- 5.3 The Chief Executive shall be invited to attend, at least annually, to discuss with the Audit Committee the process for assurance that supports the Statement on Internal Control.
- 5.4 The Chief Executive shall be invited to attend when the Committee considers the draft internal audit plan and the annual accounts.
- 5.5 The Finance Governance Lead (or other nominated representative) shall be the Secretary to the Committee and shall attend to take minutes of the meeting and provide appropriate support to the Chair and Committee members.

6. Authority

The Committee is authorised by the Board to:

- 6.1 Investigate any activity within its Terms of Reference;
- 6.2 Seek any kind of information they may require from any employee and all employees are directed to co-operate with any request made by the Committee.
- 6.3 Obtain outside legal or independent professional advice;
- 6.4 Secure the attendance of **external parties** with relevant experience and expertise if necessary;
- 6.5 Have access to appropriately anonymised records, documents and correspondence relating to any clinical matter, including documents of a confidential nature; and,
- 6.6 Require explanations concerning any matter under investigation.
- 6.7 **Direct that all Officers are required** to co-operate with any request made by the Committee.

7. Emergency Powers

- 7.1 Where an urgent decision needs to be made in between scheduled meetings, members of the committee can convene an Extra-ordinary meeting to discuss a particular issue, quorum rules as stated in paragraph 3 still apply. If it is not practicable to meet in person, matters can be dealt with through telephone or the exchange of emails. The exercise of such powers shall be reported and minuted at the next Committee meeting.

8. Duties

The duties of the Committee can be categorised as follows:

8.1 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 organisation's activities (both clinical and non-clinical), that supports the achievement of the organisation's objectives.

8.1.1 In particular, the Committee will:

- (a) review the adequacy of all risk and control related disclosure statements (in particular the Statement on Internal Control and declarations of compliance relating to Care Quality Commission Essential Standards), together with any accompanying Head of Internal Audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Board
- (b) report on risk management as part of the Trust's internal control arrangements in the Annual Report
- (c) satisfy itself that risks are managed appropriately
- (d) instil a culture of risk management throughout the organisation
- (e) review the adequacy of 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
- (f) review the adequacy of the policies for ensuring compliance with relevant regulatory, legal, code of conduct and NHSLA requirements and related reporting and self-certification.
- (g) review the adequacy of the policies and procedures for all work related to fraud and corruption as set out in Secretary of State Direction and as required by the Counter Fraud and Security Management Service

- (h) in carrying out this work the Committee will primarily utilise the work on Internal Audit, External Audit and other assurance functions, but will not be limited to these audit functions
- (i) 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
- (j) 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

8.2 **Internal Audit**

The Committee shall ensure that there is an effective internal audit function established by management that meets mandatory NHS Internal Audit Standards (or Government Internal Audit Standards in an FT) and provides appropriate independent assurance to the Audit Committee, Chief Executive and Board. This will be achieved by:

- (a) Consideration of the provision of the Internal Audit service, the cost of the audit and any questions of resignation and dismissal
- (b) 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
- (c) 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
- (d) Ensuring that the Internal Audit function is adequately resourced and has appropriate standing within the organisation
- (e) Annual review of the effectiveness of Internal Audit

8.3 **External Audit**

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

- (a) Consideration of the appointment and performance of the External Auditor, as far as the rules governing the appointment permit.
- (b) Discussions 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 of their local evaluation of audit risks and assessment of the Authority and associated impact of the audit fee
- (c) 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 work carried outside the annual audit plan, together with the appropriateness of management responses

8.4 **Counter Fraud**

The Committee shall satisfy itself that the organisation has adequate arrangements in place for countering fraud and shall review the outcomes of counter fraud work.

8.5 **Management**

The Committee shall request and review reports and positive assurance 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. security management,

information governance and clinical audit) as they may be appropriate to the overall arrangements.

8.6 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 Board, focusing particularly on:

- (a) The wording in the Statement on Internal Control and other disclosures relevant to the Terms of Reference of the Committee
- (b) Changes in, and compliance with, accounting policies, practices and estimation techniques.
- (c) Unadjusted mis-statements in the financial statements
- (d) Significant judgement in preparation of the financial statements
- (e) Significant adjustments resulting from the audit
- (f) Letter of representation
- (g) Qualitative aspects of financial reporting
- (h) The Committee should also 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.

9. Reporting Arrangements to the Board

The Audit Committee will report to the Trust Board after every meeting on matters that were discussed at Audit Committee meetings.

The following will be presented to the Board:

- Minutes of Audit Committee meetings
- An Annual Report of the Audit Committee
- A Work Plan

Where the minutes have not been signed off by the Committee in time to be presented to the Board, the following procedure will apply:

- a) Following each Committee meeting, a draft set of minutes approved by the Committee Chair will be provided at the next Board meeting to note, where it is practicable to do so. Alternatively, a verbal update will be provided with draft minutes to follow at the subsequent Board meeting;
- b) The Committee will formally agree the minutes of that meeting at its next Committee meeting;
- c) Following this, any significant changes to the minutes will be highlighted to the Board, alongside the presentation of the formally agreed minutes to note.

10. Reporting Arrangements of other Committees and Groups

In order to comply with paragraph 8.1 in that the Audit Committee is responsible for assuring an effective system of integrated governance, risk management and internal control, across the whole of the organisation's activities (both clinical and non-clinical), the following Committees and Groups will report into the Audit Committee and provide minutes of their meetings to the Audit Committee:

- (a) Clinical Governance Committee
- (b) The Information Governance Steering Group
- (c) The Health and Safety Committee
- (d) Risk Managers Forum

Although the Clinical Governance Committee reports directly to the Trust Board, the Audit Committee will review the work of the Clinical Governance Committee, in particular, issues regarding clinical risk management.

In addition, the Committee will review the work of other committees within the organisation, whose work can provide relevant assurance to the Audit Committee's own scope of work.

11. 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 for 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 Litigation Authority, etc.), professional bodies with responsibility of the performance of staff or functions (e.g. Royal Colleges, accreditation bodies, etc.).

12. Annual Review of the Audit Committee

12.1 The Committee will undertake an annual self assessment to:

- 12.1.1 Review its own performance to ensure it is operating effectively;
- 12.1.2 Determine whether its planned activities and responsibilities for the previous year have been sufficiently discharged; and
- 12.1.3 Recommend any changes and/or actions it considers necessary, in respect of the above.

12.2 An annual report will be provided to the Board which details the outcome of the annual review.

13. Monitoring Compliance

13.1 As part of the annual self assessment referred to in paragraph 12 which will be reported in the annual report, the Committee will review that the terms of reference have been complied with and whether they remain fit for purpose. As a minimum, the terms of reference must include:

- a) Duties
- b) Reporting arrangements to the board
- c) Membership, including nominated deputy where appropriate
- d) Required frequency of attendance by members
- e) Reporting arrangements into the Audit Committee
- f) Requirements for a quorum
- g) Frequency of meetings
- h) Process for monitoring compliance with all of the above

14. Committee Servicing

14.1 The Committee shall be supported administratively by the Finance Governance Lead (or other nominated representative), whose duties in this respect will include:

- 14.1.1 Agreement of agenda with the Chair and collation of papers.
- 14.1.2 Taking the minutes & keeping a record of matters arising and issues to be carried forward.

14.1.3 Producing a single document to track Audit Committee agreed actions and report progress to the Committee

Terms of Reference reviewed by:
Audit Committee: January 2012
Next Review Date: January 2013