

## AUDIT COMMITTEE

### TERMS OF REFERENCE

<p><b>Committee Status</b></p>	<p>The Audit Committee (“the Committee”) is a committee of the Board of Directors and has no executive powers, other than those specifically delegated to it in these terms of reference.</p> <p>It is authorised to investigate any matter within its terms of reference and to be provided with the resources to do so. It also has the right of access to all information that it deems relevant to fulfil its duties and is authorised to seek any information it requires from any employee, and all employees are directed to co-operate with any request from the Committee.</p> <p>The Committee has delegated powers to obtain any outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.</p>
<p><b>Reporting to</b></p>	<p>The Committee is accountable to the Board of Directors and the Committee Chair will report regularly on the Committee’s proceedings.</p> <p>The Committee shall make whatever recommendations to the Board it deems appropriate on any area within its remit where action or improvement is required.</p> <p>The minutes of Committee meetings shall be formally recorded and made available to the Board of Directors.</p> <p>On an annual basis, the Committee will report to the Board on its work in support of the annual governance statement, specifically commenting on:</p> <ul style="list-style-type: none"> <li>- The fitness for purpose of the assurance framework;</li> <li>- The completeness and extent to which risk management is embedded at the Trust;</li> <li>- The integration of governance arrangements;</li> <li>- The appropriateness of the evidence that shows the organisation is fulfilling regulatory requirements relating to its existence as a functioning business;</li> <li>- The robustness of the processes behind the quality report.</li> </ul> <p>This annual report will describe how the Committee has fulfilled its terms of reference and give details of any significant issues that the Committee considered in relation to the financial statements and how they were addressed.</p>
<p><b>Purpose</b></p>	<p>The Committee advises the Board of Directors and provides an independent and objective review on the adequacy of Trust’s system of internal control, including audit arrangements (internal and external), financial systems, financial information, assurance arrangements including governance, risk management and compliance with legislation.</p>

<p><b>Membership</b></p>	<p>The Committee shall be appointed by the Board of Directors and shall consist of at least three members made, up as follows:</p> <p>A Non-Executive Director will chair the meeting (but not the Chair of the Finance and Performance Committee).</p> <p>Two further Non-Executive Directors.</p> <p>At least one member will have recent and relevant financial experience<sup>1</sup>.</p> <p>The Trust Chairman shall NOT be a member of the Committee.</p> <p>Members will be expected to attend at least 80% of meetings per annum.</p>
<p><b>Attendees</b></p>	<p>The following are expected to attend each meeting:</p> <p>Director of Finance;</p> <p>The Company Secretary, to ensure coordination of Board committees and to provide appropriate support to the Committee Chair and Committee members;</p> <p>Representatives from internal audit and external audit will be expected to attend each meeting;</p> <p>Attendance at, at least 2 meetings per annum (to be agreed with the Committee Chair), will be required by the Trust's counter fraud specialist.</p> <p>It is for the Audit Committee Chair to plan the meetings and invite executive directors and other senior members according to the requirements of each agenda. This will vary from meeting to meeting and will depend on whose area of responsibility an agenda item falls within. Directors / managers should be given sufficient warning that their presence is required so that they come fully prepared.</p> <p>Other Trust Executive Directors and Trust officers will attend as required by the Committee to provide assurances and explanations to the Committee when discussing audit reports or other matters within the area of their responsibility.</p> <p>Meetings are not open to members of the public.</p> <p>Once confidentiality agreements have been signed, two Governors from the Council of Governors (ordinarily, this will be the Lead Governor or their Deputy, and one other) may attend Committee meetings as observers.</p> <p>At the invitation of the Committee Chair, Governors may participate at meetings. However, the Chair reserves the right to hold all, or part of the meeting in private without Governors and / or other attendees (except the minute taker) if deemed appropriate.</p> <p>Those in attendance do not count towards the quorum.</p>
<p><b>Quorum</b></p>	<p>A quorum shall be made up of two members. One of the Members shall be appointed Chair of the Committee by the Board.</p>

<sup>1</sup> Provision C.3.1, Monitors' NHS Foundation Trust Code of Governance

	No business shall be conducted unless a quorum is present.
<b>Frequency of Meetings</b>	<p>Meetings shall be held at least 5 times a year, but may be held more frequently should circumstances require (to be determined by the Committee Chair).</p> <p>At least once a year, the Committee should meet privately with both the external and internal auditors on a separate basis.</p>
<b>Access</b>	The Head of Internal Audit, representatives of external audit and counter-fraud specialists have the right of access to the Chair of the Committee.
<b>Meeting administration</b>	<p>Notice of meetings will be given at least seven working days in advance unless members agree otherwise.</p> <p>The agenda shall be determined by the Committee Chair in consultation with the Secretary (the organisation's Secretary or Governance Lead)</p> <p>Items for inclusion on the agenda shall be submitted at least 7 working days prior to the meeting.</p> <p>The agenda and papers will normally be circulated at least five working days prior to the meeting.</p> <p>The Company Secretary, or their nominee, shall record the minutes of meetings.</p>
<b>Committee's Duties</b>	<p>The duties of the Committee can be categorised as follows<sup>2</sup>:</p> <p><b><u>1. Integrated Governance, Risk Management and Internal Control</u></b></p> <p>The Committee shall review the establishment and maintenance of an effective system of integrated risk management and internal control, across the whole of the Trust's activities (including those of any subsidiary, either currently in existence or to be established)<sup>3</sup> that support the achievement of the organisation's strategic objectives.</p> <p>The Committee will be supported in this duty by the Quality Assurance Committee, which is responsible for assuring the Board that an effective system of quality governance, risk management and internal control for the three broad areas of patient experience, clinical effectiveness and the safety of patients and service users, is in place.</p> <p>Matters referred to the Quality Assurance Committee will be dealt with by that Committee. However, through the close relationship with the Quality Assurance Committee, the Audit Committee will provide internal assurance that the processes and outcomes of the Quality Assurance Committee can be used to provide assurance on the overall processes of risk management and internal control across the organisation. This will be evidenced through the Committee's use of the Board Assurance Framework (BAF), to guide its work and that of the audit and assurance functions that report to it.</p>

<sup>2</sup> Provision C.3.2, Monitors' NHS Foundation Trust Code of Governance

<sup>3</sup> Refer to FRC Guidance on Audit Committees (April 2016) paragraph 7

In particular, the Committee, will review the adequacy and effectiveness of:

- all risk and control related disclosure statements, (in particular, the Annual Governance Statement) together with any accompanying Head of Internal Audit Opinion, prior to endorsement by the board;
- the underlying assurance processes that indicate the degree of achievement of the organisation's objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements;
- the risk management strategy, structures, processes and responsibilities for identifying and managing key risks facing the organisation;
- the policies and procedures for all work related to anti-fraud, bribery and corruption as set out by the NHS Counter Fraud Authority;
- the work of counter-fraud services; to ensure that there is an effective LCFS established by management that meets mandatory requirements and provides appropriate independent assurance to the Committee, Chief Executive and Board;
- the policies for ensuring that there is compliance with relevant regulatory, legal and code of conduct requirements as set out in regulators' standards and guidance;
- the operational effectiveness of policies and procedures; and
- the financial control systems.

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 sources. 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.

These will be evidenced through the Committee's use of an effective assurance framework to guide its work and the audit and assurance functions that report to it.

As part of its integrated approach, the Committee will have effective relationships with other key committees (for example the Quality Assurance Committee) so that it understands processes and linkages. However, these other Committees must not usurp the Committee's role.

## **2. Internal Audit**

The Committee shall ensure that there is an effective Internal Audit function established by management that meet the *Public Sector Internal Audit Accounting Standards 2017*, that utilises an independent risk based approach.

In addition, the Committee will:

- consider the appointment of the internal audit service, the internal audit fee and any questions of resignation or dismissal and make appropriate recommendations to the Board;
- following consultation with all executive and Non-Executive Board members, approve the internal audit programme and more detailed programme of work, ensuring that this is consistent with the audit needs of the organisation as identified in the assurance framework
- consider the major findings of internal audit investigations (and management's response) and report progress on material matters to the Board;
- ensure co-ordination and co-operation between the Internal and External Auditors to optimise the use of audit resources;

- ensure that the Internal Audit function is adequately resourced and has appropriate standing within the organisation;
- review annually the effectiveness of Internal Audit; and
- meet in private with the internal auditor to discuss issues or matters arising.

### **3. External Audit**

The Committee shall review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process. 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. This will be achieved by:

- The Committee should make a report to the Council of Governors in relation to the performance of the External Auditors<sup>4</sup>, including details such as the quality and value of the work, and the timeliness of report and fees, to enable the Council of Governors to consider whether or not to re-appoint them. The Committee should also make recommendation to the Council of Governors about the appointment, re-appointment and removal of the External Auditor and approve the remuneration and terms of engagement of the External Auditor.
- discussion and agreement with the External Auditor, before the annual audit commences, of the nature and scope of the audit, as set out in the annual plan;
- discussing with the external auditors their evaluation of audit risks and assessment of the organisation and the impact on the audit fee;
- review of External Audit reports, including the report to those charged with governance (before its submission to the Board) and any work undertaken outside the annual audit plan, together with the appropriateness of management responses;
- review and monitor the External Auditor's independence, objectivity and effectiveness, particularly with regard to non-audit services that may be provided to the Trust;
- develop and recommend to the Board as required, the Trust's formal policy on the provision of non-audit services by the External Auditor, including approval of non-audit services by the Committee and specifying the types of non-audit service to be pre-approved, and assessment of whether non-audit services have a direct material effect on the audited financial statements<sup>5</sup>; and
- meet as required in private with the external auditor to discuss issues or matters arising; and

### **4. Other assurance functions**

The 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 could include any reviews undertaken by regulators (such as NHSI and the Care Quality Commission), NHS Resolution and professional bodies with responsibility for the performance of staff or functions (such as Royal Colleges and accreditation bodies).

<sup>4</sup> Provision C.3.4, Monitors' NHS Foundation Trust Code of Governance

<sup>5</sup> Refer to FRC Guidance on Audit Committees (April 2016) paragraphs 71, 73 and 74

In addition, the Committee will review the work of other committees within the organisation whose work can provide relevant assurance to the Committee's own scope of work. In particular, this will include any clinical governance, risk management or quality committees that are established.

The Committee will provide assurance to the Board that the organisation is properly managing its cyber risk, including appropriate risk mitigation strategies.

The Committee will review the complete BAF document on a quarterly basis prior to its submission to the Board.

#### **5. Financial Reporting**

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

The Committee should 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.

The Committee shall review 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, practices and estimation techniques;
- unadjusted mis-statements in the financial statements;
- significant judgments in the preparation of the financial statements;
- significant or proposed adjustments resulting from the audit;
- letters of representation;
- explanations for significant variances;
- qualitative aspects of financial reporting; and
- the rigour with which the Auditor has undertaken the audit.

#### **6. Counter Fraud**

The Committee shall satisfy itself as to having adequate arrangements in place for counter fraud that meets the NHS Counter Fraud Authority's standards; fraud, bribery and corruption, and shall review the outcomes of work in this area.

In accordance with 1.2 of the NHSCFA' Fraud Standards for Providers, the Committee has:

'stated its commitment to ensuring the Trust strive to achieve these standards and therefore requires assurance that they are being met via NHSFCA's self-review tool submission'.

The Committee will refer any suspicions of fraud, bribery, and corruption to the Trust's Counter Fraud Specialist or the NHSCFA.

#### **7. Annual Report**

The annual report shall include a separate section to cover the work of the Committee in discharging the responsibilities outlined above.

	<p>The annual report should<sup>6</sup>:</p> <ul style="list-style-type: none"> <li>▪ Explain the significant issues that the Committee considered in relation to the financial statements, operations and compliance, and how these issues were addressed;</li> <li>▪ explain, if the auditor (internal / external) provides non-audit services and how auditor objectivity and independence is safeguarded;</li> <li>▪ the value of external audit services and information on the length of tenure of the current audit firm and when a tender was last conducted; and</li> <li>▪ Include details of the full auditor (internal / external) appointment process where relevant.</li> </ul> <p><b><u>8. Whistleblowing Policies</u></b></p> <p>The Committee shall review the Trust's arrangements for its employees to raise concerns, in confidence, about possible wrongdoing in financial reporting and control, clinical quality, patient safety or other matters. The Committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action<sup>7</sup>, and reassure individuals raising concerns that they will be protected from potential negative repercussions.</p> <p><b><u>9. Other matters</u></b></p> <p>The Committee shall:</p> <ul style="list-style-type: none"> <li>▪ Review the appropriateness of single tender actions which have been approved by the Executive;</li> <li>▪ give due consideration to laws and regulations, and the provisions of The NHS Foundation Trust Code of Governance;</li> <li>▪ Committee members shall receive the development and training that they need to fulfil their role on the Committee.</li> </ul>
<p><b>Monitoring and review</b></p>	<p>The Committee's Terms of Reference, including membership, will be subject to annual review.</p> <p><i>The Committee will undertake an annual review of its performance, via self-assessment by its members and this will be reported, together with any agreed actions, to the Board of Directors.</i></p>

Seen by the Audit Committee on 25 February 2020, and changes recommended for approval to the Board.

Approved by the Board of Directors on 07 April 2020.

<sup>6</sup> Provision C.3.9, Monitors' NHS Foundation Trust Code of Governance

<sup>7</sup> Provision C.3.8, Monitors' NHS Foundation Trust Code of Governance