



BOARD OF DIRECTORS - OPEN
12 September 2018

Open BoD 12.09.18
Item 20ii(c)

TITLE OF PAPER	Audit Committee Terms of Reference
TO BE PRESENTED BY	Margaret Saunders, Director of Corporate Governance (Board Secretary)
ACTION REQUIRED	For ratification

OUTCOME	To ratify the revised Terms of Reference for the Trust's Audit Committee
TIMETABLE FOR DECISION	September 2018 Board of Directors' meeting
LINKS TO OTHER KEY REPORTS / DECISIONS	Internal Audit Reports Risk Management Strategy Shaping the Future, the Trust Strategy & Strategic Planning Framework 2017-2020
STRATEGIC AIM STRATEGIC OBJECTIVE BAF RISK NUMBER & DESCRIPTION	Strategic Aim: Value for Money Strategic Objective: 4.1 We will improve the productivity and efficiency of our services BAF Risk Number: A401 II BAF Risk Description: Trust governance systems are not sufficiently embedded
LINKS TO NHS CONSTITUTION & OTHER RELEVANT FRAMEWORKS, RISK, OUTCOMES ETC	NHS Improvement's regulatory framework Regulation 17 of the Health and Social Care Act 2008 (Regulated Activities) Regulations http://www.cqc.org.uk/guidance-providers/regulations-enforcement/regulation-17-good-governance Provider Licence Annual Governance Statement NHS Foundation Trust Code of Governance
IMPLICATIONS FOR SERVICE DELIVERY AND FINANCIAL IMPACT	None
CONSIDERATION OF LEGAL ISSUES	None

Author of Report	Margaret Saunders
Designation	Director of Corporate Governance (Board Secretary)
Date of Report	August 2018



SUMMARY REPORT

Report to: Board of Directors
Date: 12 September 2018
Subject: Audit Committee Terms of Reference
Author: Margaret Saunders, Director of Corporate Governance (Board Secretary)

1. Purpose

<i>For approval</i>	<i>For a collective decision</i>	<i>To report progress</i>	<i>To seek input from</i>	<i>For information</i>	<i>Other (Please state below)</i>
X					Ratification

2. Summary

The attached revised Audit Committee terms of reference were approved by the committee at its meeting on the 17 July 2018 and agreed for submission to the Board of Directors for ratification.

The Committee received the revised terms of reference and noted the assurance in respect of the internal control mechanisms in place to support governance of the Trust.

3. Next Steps

The Terms of Reference have been reviewed and amended accordingly to reflect discussion and comments made at Audit Committee in January 2018. The revised version was received and duly approved for submission to the Board for ratification.

4. Required Actions

Ratify the Committee Terms of Reference.

5. Monitoring Arrangements

The Audit Committee will continue to review the Terms of Reference at least annually.

6. Contact Details

Margaret Saunders
Director of Corporate Governance (Board Secretary)

Terms of Reference

Name of Committee	Audit Committee (AC)
Type of Committee	Committee of the Board of Directors

1.	Purpose of Committee/Group
	<p>The Audit Committee (“the Committee”) has been established to provide assurance to the Board of Directors in consultation with the other Board Committees that adequate and appropriate governance structures, processes and controls are in place throughout the Trust.</p> <p>In carrying out this function, the Committee will primarily use the work of internal audit and other assurance functions, but will not be limited to these functions. It will also seek reports and assurances from directors and managers as appropriate.</p> <p>The Committee may request and review reports and assurances (positive or negative) from directors and managers on the overall arrangements for governance and risk management.</p> <p>The Committee shall provide assurance to the Board of Directors on the probity of the Trust and support the other Board Committees in the achievement of clinical effectiveness and safe outcome for service users, maintaining positive service users and carer experience and equality and inclusion.</p>
2.	Scope
	<p>The Committee will:</p> <ul style="list-style-type: none"> • monitoring the integrity of the financial statements, assisting the Board of Directors in its oversight of risk management and the effectiveness of internal control, oversight of compliance with corporate governance standards and matters relating to the external and internal audit functions • provide the Board of Directors with a means of independent and objective review of financial and corporate governance, assurance processes and risk management across the whole of the Foundation Trust’s activities (clinical and non-clinical) both generally and in support of the annual governance statement. <p>The Board of Directors is responsible for ensuring effective financial decision-making, management and internal control including:</p> <ul style="list-style-type: none"> • management of the Foundation Trust’s activities in accordance with statute and regulations; • the establishment and maintenance of a system of internal control to give reasonable assurance that assets are safeguarded, waste or inefficiency

avoided and reliable financial information produced, and that value for money is continuously sought.

3. Authority/Accountability

The Committee is constituted as a standing committee of the Board of Directors.

The Committee is authorised to establish and delegate powers to sub-committee(s) and work groups. The Committee will oversee the work of those sub-committee(s) and work groups.

The Committee is authorised by the Board of Directors to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any member of staff and all members of staff are directed to co-operate with any request made by the Committee.

The Committee is authorised by the Board of Directors to obtain outside independent professional advice. The Committee is authorised to request the attendance at a committee of individuals or authorities from outside the Foundation Trust with relevant experience and expertise if it considers this necessary or expedient to the carrying out of its functions. The Committee will advise the Board of Directors of any investigation being undertaken that instructs professional advisors and update the Board of Directors on progress.

4. Objectives of Committee

Financial statements and the annual report

- (i) The Committee will: monitor the integrity of the financial statements of the Foundation Trust, any other normal announcements relating to the Trust's financial performance, reviewing the significant financial reporting judgements contained in them
- (ii) review the Annual Statutory Accounts, before they are presented to the Board of Directors for approval, in order to determine their completeness, objectivity, integrity and accuracy. This review will cover but is not limited to:
 - the meaning and significance of the figures, notes and significant changes;
 - areas where judgement has been exercised;
 - adherence to accounting policies and practices;
 - explanation of estimates or provisions having material effect;
 - the schedule of losses and special payments;
 - any unadjusted statements; and
 - any reservations and disagreements between the external auditors and management which have not been satisfactorily resolved.
- (iii) recommend to the Board of Directors that the Annual Statutory Accounts are approved
- (iv) review the Annual Report and Annual Governance Statement and recommend to the Board of Directors that the documents are approved
- (v) review each year the accounting policies of the Trust and make appropriate recommendations to the Board of Directors
- (vi) Review all accounting and reporting systems for reporting to the Board of Directors, including in respect of budgetary control
- (vii) the Committee will be notified of and scrutinise losses, write-offs and

compensation including special payments, ex-gratia payments and extra statutory or extra regulatory payments.

Internal Control and Risk Management

The Committee will:

- (i) review the Foundation Trust's internal financial controls to ensure the provision and maintenance of an effective system of financial risk identification and associated controls, reporting and governance
- (ii) review and maintain an oversight of the Foundation Trust's general internal controls and risk management systems
- (iii) review processes to ensure appropriate information flows to the Committee from executive management and other Board committees in relation to the Trust's overall internal control and risk management position
- (iv) review the adequacy of the policies and procedures in respect of all counter-fraud work. Receive the annual report from counter fraud
- (v) review the adequacy of underlying assurance processes that indicate the degree of achievement of corporate objectives and the effectiveness of the management of principal risks, including the Board Assurance Framework (BAF).
- (vi) utilise and review the work of the internal audit, external audit and other assurance functions as well as reports and assurances sought from directors, managers, committee's and other investigatory outcomes so as to fulfil its functions in connection with these terms of reference.
- (vii) review the adequacy of policies and procedures for ensuring compliance with relevant regulatory, legal and conduct requirements.

Freedom to Speak Up: Raising Concerns (Whistleblowing)

The Committee will:

- (i) review arrangements that allow staff and other individuals where relevant, to raise, in confidence, concerns about possible improprieties in matters of financial reporting and control, clinical quality, patient safety and other matters
- (ii) Ensure that arrangements are in place for the proportionate and independent investigation of such matters, and for appropriate follow-up action, and ensure safeguards are in place for those who raise concerns.

Corporate Governance

The Committee will:

- (i) monitor and provide assurance to the Board of Directors on corporate governance compliance (e.g. compliance with terms of the Licence, Constitution, Codes of Conduct, Standing Orders, Standing Financial Instructions, maintenance of Registers of Interests).
- (ii) consider the outcomes of significant reviews carried out by other bodies which include but are not limited to regulators and inspectors within the health and social care sector and professional bodies with responsibilities that relate to staff performance and functions.

Internal Audit

The Committee will:

- (i) at least annually, monitor and review the effectiveness of the Foundation Trust's internal audit function, taking into consideration relevant UK professional and regulatory requirements
- (ii) review and approve the internal audit strategy and programme, ensuring that it is consistent with the needs of the organisation. This includes ensuring the programme covers the breadth of the internal control environment ensuring relevant coverage of Clinical Quality, Governance, Risk Management and Legislation, performance and Data Quality, Workforce and Finance
- (iii) oversee on an ongoing basis the effective operation of internal audit in respect of:
 - adequate resourcing;
 - its co-ordination with external audit;
 - meeting relevant internal audit standards;
 - providing adequate independence assurances;
- (iv) it having appropriate standing within the Foundation Trust; consider the major findings of internal audit investigations and management's response and their implications and monitor progress on the implementation of recommendations
- (v) consider the provision of the internal audit service, the cost of the audit and any questions of resignation and dismissal of internal audit staff
- (vi) where an audit report relates to a follow-up audit and high risk recommendations are still outstanding, the Executive Director shall attend the Committee meeting to provide an update on actions taken to address these recommendations
- (vii) an audit recommendation self-assessment report, which includes a log of audit reports submitted to the Committee and any outstanding actions, shall be submitted to each meeting of the Committee for review
- (viii) directors are responsible for providing an update at the Committee meetings on any outstanding actions that fall within their remit
- (ix) assuring itself that the management of the Trust has implemented the agreed recommendations of internal audit reports in a timely and effective way.

External Audit

The Committee will:

- (i) review and monitor the effectiveness of the external audit process, taking into consideration relevant UK professional and regulatory requirements.
- (ii) assess the external auditor's work and fees each year. This assessment should include the review and monitoring of the external auditor's independence and objectivity and effectiveness of the audit process in light of relevant professional and regulatory standards
- (iii) oversee the conduct of a market testing exercise for the appointment of an auditor at least once every five years and, based on the outcome, support the the Council of Governors in the appointment of the external auditors
- (iv) the Council of Governors will take the lead in agreeing with the Committee the criteria for appointing, re-appointing and removing external auditors. To support them in this task, the Audit Committee should:
 - provide information on the external auditor's performance, including details such as the quality and value of the work, the timeliness of reporting and fees.
 - Advise the Council of Governors in respect of the appointment, re-appointment and removal of an external auditor and related fees as applicable. To the extent that advice is not adopted by the Council of Governors, this shall be included in the annual report, along with the reasons for non-adoption.
- (v) discuss with the external auditor, before the audit commences, the nature and

- scope of the audit, and ensure coordination, as appropriate, with other external auditors in the local health economy.
- (vi) review external audit reports, including the Annual Audit Letter, together with the management response, and to monitor progress on the implementation of recommendations.
 - (vii) to develop and implement a policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance.

Standing Orders, Standing Financial Instructions and Standards Of Business

The Committee will:

- (i) review Standing Orders, Standing Financial Instructions and any waiver or suspension on the documents
- (ii) review the reasons for such waivers or suspensions must be reported by the Lead Executive to the Board of Directors and reports shall be received by the Committee.
- (iii) review the Scheme of Delegation.

Other

The Committee will:

- (i) review performance indicators relevant to the remit of the Committee
- (ii) examine any other matter referred to the Committee by the Board of Directors and initiate investigation as determined by the Committee. Report back to the Board of Directors on any finding following an investigation
- (iii) the Chief Executive shall demonstrate that the use of private finance represents value for money and genuinely transfers risk to the private sector. Reports shall be received by the Committee.

5. Membership

The membership of the Committee will be:

- Three Non-Executive Directors, one of which, with recent and relevant financial experience, will be appointed by the Board of Directors to chair the meetings
- The Trust Chair should not be a member of the Committee,
- The Chair of the Committee should not be the Vice Chair of the Trust.
- The Committee shall have sufficient skills amongst its members to be able to discharge its responsibilities

Executive Directors should not be appointed to the Committee. The role of the Executive is to attend, to provide information, and to participate in discussions, either for the whole duration of a meeting or for particular items.

<p>6.</p>	<p>Attendees</p> <p>Meetings of the Committee shall normally be attended by:</p> <ul style="list-style-type: none"> • Executive Director of Finance • Director of Corporate Governance (Board Secretary) • A representative of the external auditors and a representative of the internal auditors • A representative of the local counter fraud service may be invited to attend meetings of the Audit Committee. <p>Other Non-executive Directors can attend as desired. Executive Directors will be invited to attend the Committee dependent on the business being discussed by the Committee.</p>
<p>7.</p>	<p>Meeting Arrangements, Frequency and Notice of Meetings</p> <p>Meetings shall be held at least four times per year, with additional meetings where necessary.</p> <p>The external and internal auditor shall be afforded the opportunity at least once per year and separately, to meet with the Audit Committee without Executive Directors present.</p> <p>Agendas will be generated by the Committee Administrator in consultation with the Executive Director of Finance, and shared with the Committee Chair for approval. A formal agenda and supporting papers will be made available electronically to all members, and those in attendance where appropriate, three working days prior to the date of the meeting.</p> <p>The Committee will agree objectives and an annual work programme and plan how this will be discharged throughout the year. The delivery of this plan will be built into a forward planner and meeting agendas.</p> <p>Extraordinary meetings can be called by the Chair and can be held virtually, any decision made by the Committee in an extraordinary meeting will be ratified by the next formal meeting.</p>
<p>8.</p>	<p>Quorum</p> <p>The Committee is quorate when at least two members are present.</p> <p>Deputies for Executive Directors may attend by exception but must be fully briefed.</p> <p>On the occasions when the Committee has arranged to meet and the Committee is not quorate, business can be discussed and provisional decisions can be made, but those decisions must be taken back to the next meeting of the Committee for ratification.</p>

9. Minutes and Reporting Arrangements

The Committee shall be supported administratively by the Committee Administrator , whose duties in this respect will include:

- production of the agenda to be agreed by the Chair
- the collation and dissemination of connected papers;
- taking the minutes;
- keeping a record of matters arising and issues to be carried forward;
- maintaining an action log;
- advising the Committee as appropriate; and
- recording of items for a Significant Issues Report of the key business undertaken to the Board following each meeting, in the public session where possible.

The minutes shall be approved at the following meeting and matters arising and action log shall be discussed at each meeting. Approved minutes will be shared with the Board of Directors.

The following reports will also be made by the Committee:

Assurance from the Audit Committee is provided to the Board of Directors by the Chair through provision of minutes and presentation of the Significant Issues Report. This report highlights key areas where assurance has been received, any emerging risks and summarises recommendations and actions required. The report also highlights recommendations for addition or amendment to the risks delegated to the Committee via the Corporate Risk Register (CRR) and Board Assurance Framework (BAF).

The Committee should provide an Annual Report timed to support the preparation of the Governance Statement. This internal report needs to be open and honest in presenting the committee's views if it is to be of real benefit to the Board and Accounting Officer. This report is likely to be used by the Board in preparing its own report for publication in fulfilment of the reporting requirements of the Code.

The Annual Report should summarise the Committee's work for the year past, and present the committee's opinion about:

- the significant issues that the Committee considered in relation to financial statements, operations and compliance, and how these issues were addressed;
- the effectiveness of governance, risk management and control
- the comprehensiveness of assurances in meeting the Board and Accounting Officer's needs
- the reliability and integrity of these assurances. whether the assurance available is sufficient to support the Board and Accounting Officer in their decision taking and their accountability obligations
- the implications of these assurances for the overall management of risk
- any issues the Committee considers pertinent to the Governance Statement and any long term issues the Committee thinks the Board and/or Accounting Officer should give attention to financial reporting for the year
- the Committee's view of its own effectiveness, including advice on ways in which it considers it needs to be strengthened or developed.

10.	Reporting Groups	
	<p>The following committees shall report to the Committee:</p> <p>None.</p> <p>The Committee will use the Annual Reports produced by the other Board Committees to support the production of the Annual Governance Statement.</p> <p>Through provision of minutes which articulate how their duties and responsibilities have been discharged, highlights emerging risks and summarises recommendations and actions required.</p> <p>The Committee receives assurance from the Significant Issues Reports of the Board Committees. The Chair of the relevant Committee shall report details of any matters in respect of which actions or improvements are required e.g. Clinical Audit including clinical quality issues contrary to assurance levels reported via the BAF, Freedom to Speak Up investigations requiring independent security.</p>	
11.	Meeting Effectiveness Review	
	<p>The Committee shall conduct an annual self-assessment on the performance of its duties as reflected within these terms of reference and report any conclusions and recommendations for change to the Board. As part of this assessment, the Committee shall consider whether or not it receives adequate and appropriate support in fulfilment of its role and whether or not its current workload is manageable.</p> <p>The purpose of the review is to provide assurance to the Board of Directors on all areas within the remit of the committee.</p> <p>As part of the Board of Directors' annual performance review process, the Committee shall review its collective performance (and that of its individual members), and will prepare an annual report, for inclusion in the Trust's Annual Report and timed to support the development of the Annual Governance.</p>	
12.	Review to be conducted by Committee Chair	
	Date Committee established	1 st July 2008
	Terms of Reference to be reviewed	The terms of reference of the committee shall be reviewed by the Board when required, but at least annually.
	Date of last review	July 2018
	Date of next review	January 2019

Board Committee Governance Structure

Audit Committee

Assurance Structures

