**AUDIT COMMITTEE TERMS OF REFERENCE**

**Introduction**

These Terms of Reference build on original work based around the Cadbury Committee and Combined Code and subsequent guidance and best practice in the private and public sector. They reflect the particular nature of audit committees in the NHS and the growing role of the committee in developing integrated governance arrangements and providing assurance that NHS bodies are well managed across the whole range of their activities.

**Terms of Reference**

**Constitution**

The Board of Directors hereby resolves to establish a Committee of the Board to be known as the Audit Committee (**the Committee**). The Committee is a non-executive committee of the Board of Directors and has no executive powers, other than those specifically delegated in these Terms of Reference.

**Membership**

The Committee shall be appointed by the Board of Directors from amongst the Non-Executive Directors of the Trust and shall consist of not less than three members. A quorum shall be three members (including deputies). One of the members will be appointed Chair of the Committee by the Board of Directors. The Chair of the Trust shall not be a member of the Committee.

The Non-Executive Director members of the Committee will be entitled to nominate any other Non-Executive Director of the Trust as their deputy to attend meetings in their absence. The name(s) of the nominated deputy(ies) will be recorded in the minutes of the Committee and deputies will exercise full voting rights at meetings and be included in the quorum. Where more than one individual attends to deputise for a Committee member, they may between them only exercise the one vote of that member; the vote may not be divided between the deputies and if agreement upon exercise of the one vote cannot be reached then this will be recorded as the vote not being able to be cast.

Joint membership of the Audit Committee and the Quality Committee is intended through a Non-Executive Director who is a member of both or attends the meetings of both committees. Joint membership is intended to assist the Committee to discharge its function, under these Terms of Reference, to review the work of other committees whose work can provide relevant assurance to the Committee’s own scope of work. This particularly applies to the Quality Committee and can also be relevant for the Charity Committee.

**Attendance**

The Director of Finance, the Chief Executive and appropriate Internal and External Audit representatives shall normally attend meetings. However, at least once a year the Committee should meet privately with the External and Internal Auditors.

At least once a year, the Committee will receive a report on the operation of the Quality Committee, to be presented by the Chair or a member of the Quality Committee, or consider having a joint meeting with the Quality Committee.

The Chief Executive and other executive directors should be invited to attend, particularly when the Committee is discussing areas of risk or operation that are the responsibility of that director. The Chief Executive should be invited to attend, at least annually, to discuss with the Committee the process for assurance that supports the Annual Governance Statement (formerly the Statement on Internal Control). A member of the office of the Director of Corporate Affairs & Company Secretary shall be Secretary to the Committee and shall attend to take minutes of the meeting and provide appropriate support to the Chair and Committee members.

**Frequency**

Meetings shall be held not less than four times a year (and a fifth meeting may be required in May of each year as part of the process of reviewing the Annual Report and Financial Statements before submission to the Board of Directors). The External Auditor or Head of Internal Audit may request a meeting if they consider that one is necessary.

**Authority**

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 employee and all employees are directed to co-operate with any request made by the Committee. The Committee is authorised by the Board of Directors 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, for example it may decide to seek specialist external expertise in relation to Cyber Security.

**Duties**

The duties of the Committee can be categorised as follows:

**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 Trust’s activities (both clinical and non-clinical), that supports the achievement of the Trust’s objectives. In particular, the Committee will assure itself on the adequacy of:

* the process for the development and evidencing of all risk and control related disclosure statements (in particular the Annual Governance Statement), and review any 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, and related reporting and self-certification;
* the policies and procedures for all work related to fraud and corruption as set out in Secretary of State Directions and as required by the Counter Fraud Service;
* the effectiveness of the Trust’s arrangements and processes to support whistleblowing (the arrangements by which staff may raise concerns in confidence about possible improprieties relating to financial, clinical or organisational matters). Assurance in relation to whistleblowing arrangements will also help to support the Annual Governance Statement;
* the governance and procedures relating to the Charity; and
* the procedures and management of risk in relation to Cyber Security

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 functions. 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. It may also seek specialist external assurance, when appropriate, for example in relation to Cyber Security. This will be evidenced through the Committee’s use of an effective Board Assurance Framework to guide its work and that of the audit and assurance functions that report to it.

**Internal Audit**

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 of Directors. 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 Trust 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 Trust; and
* annual review of the effectiveness of Internal Audit.

**External Audit**

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

* consideration of the appointment and performance of the External Auditor, as far as the rules governing the appointment permit;
* 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 coordination, 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 on the audit fee; and
* review all External Audit reports, including agreement of the annual audit letter before submission to the Board of Directors and Council of Governors and any work carried on outside the annual audit plan, together with the appropriateness of management responses.

**Other Assurance Functions**

The Audit Committee shall 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 will not be limited to, any reviews by Department of Health Arms’ Length Bodies or Regulators/Inspectors (e.g. NHS Improvement, Care Quality Commission, NHS Resolution, etc.), professional bodies with responsibility for the performance of staff or functions (e.g. Royal Colleges, accreditation bodies, etc.).

In addition, the Committee will review the work of other committees within the Trust, whose work can provide relevant assurance to the Committee’s own scope of work. This will particularly include the Quality Committee and the Charity Committee.

In reviewing the work of committees relating to clinical risk management, the Committee members will wish to satisfy themselves on the assurance that can be gained from the Clinical Audit function.

**Management**

The Committee shall request and review reports and positive assurances 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 Trust (e.g. Clinical Audit, Information Management & Technology, or Finance) as they may be appropriate to the overall arrangements.

The Committee shall receive copies of the Quality Committee meeting minutes and consider the appropriateness and adequacy of the assurance reported; this may be by way of the committee minutes provided to the Board as part of the pack of Board papers.

**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 shall review the Annual Report and Financial Statements before submission to the Board of Directors, 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;
* significant judgements in preparation of the financial statements;
* significant adjustments resulting from the audit;
* letter of representation; and
* qualitative aspects of financial reporting.

The Committee should also ensure that the systems for financial reporting to the Board of Directors, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Board of Directors.

**Reporting**

The minutes of Committee meetings shall be formally recorded and submitted to the Board of Directors. The Chair of the Committee shall draw to the attention of the Board of Directors any issues that require disclosure to the full Board of Directors, or require executive action.

The Committee will report to the Board of Directors annually on its work in support of the Annual Governance Statement, specifically commenting on the fitness for purpose of the Board Assurance Framework, the completeness and embeddedness of risk management in the Trust, the integration of governance arrangements and the appropriateness of the Care Quality Commission registration.

**Other Matters**

The Committee shall be supported administratively by the office of the Director of Corporate Affairs & Company Secretary, whose duties in this respect will include:

* agreeing the agenda with the Chair and attendees and collation of papers;
* taking the minutes & keeping a record of matters arising and issues to be carried forward; and
* advising the Committee on pertinent areas and enabling development / training.