

Item 5.6a

Audit Committee

Terms of Reference

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Scope: Trust Wide	Classification: Terms of Reference
Replaces: Audit Committee Terms of Reference v 8.0	
To be read in conjunction with the following documents: Audit Committee Handbook	
Document for public display? No	

Unique Identifier: TOR/TB/02(09)		Review Date: 1 st January 2020
Issue Status: Draft	Issue No: 8.0	Issue Date: TBC
Authorised by: Board of Directors		Authorisation Date: 4 th March 2019
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Archive: Document Control		Date added to Archive:
Officer responsible for archive: Document Control Administrator		

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1. Constitution and Remit

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.

2. Purpose of the Audit Committee

2.1 The Board of Directors is responsible for ensuring effective internal control including: management of the 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.

2.2 The Committee will report to the Board of Directors annually on its work in support of the Annual Governance Statement, specifically commenting on its review of financial and corporate governance arrangements, assurance processes and embeddedness of risk management within LHCH.

3. Authority

3.1 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 Audit Committee.

3.2 The Committee is authorised by the Board of Directors to obtain outside legal or other independent professional advice. The committee is authorised by the Board of Directors to request the attendance of individuals and authorities from outside the Trust with relevant experience and expertise if it considers this necessary or expedient to the carrying out of its functions.

4 Main Priorities

4.1 The Board of Directors has determined that some of its responsibilities will be exercised on its behalf by the Committee. The priority for the Committee is to monitor the integrity of the Trust's financial statements and to review the Trust's financial and non-financial controls and management systems. The Committee shall take a risk based approach to the overarching scrutiny of the Trust's assurance, risk and governance structures and processes so that the Board may be provided with assurance in conjunction with assurances received via the Integrated Performance and Quality committees that corporate objectives shall be met. In particular the Committee shall commission and scrutinize assurances that the Trust has and shall continue to operate in accordance with its license conditions and that compliance requirements of NHS Improvement and the Care Quality Commission shall be met, thereby ensuring that the Trust's license to operate is maintained.

4.2 The Audit Committee will ensure full consideration of the implications for the Trust in respect of the evolution of Sustainability and Transformation Partnerships (STPs) and accountable Care Systems (ACS) - including accounting arrangements, risk management procedures, potential conflicts of interest and information flows. It will also seek assurance on any significant risks associated with mergers and acquisitions.

5. Main Duties and Responsibilities

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5.1 Integrated 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 LHCH's objectives.

5.1.1 In particular, the Committee shall review the adequacy and effectiveness of;

- all risk and control related disclosure statements(in particular the governance statement)together with any accompanying Head of Internal Audit Opinion, external audit opinion or other appropriate independent assurances ,prior to submission to the Board
- the underlying assurance processes that indicate the degree of achievement of the Trust's 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 any related reporting and self-certifications;
- the policies and procedures for all work related to counter fraud and security as required by NHS Protect.
- Controls and risk management arrangements associated with cyber security
- the policies and procedures in place to support high quality Data Quality for robust decision making and external reporting.

5.1.2 In carrying out this work the Committee will primarily utilize 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.

5.1.3 As part of its integrated approach, the Committee will have effective relationships with other key committees notably the Quality Committee and Integrated Performance Committee, such that it understands processes and linkages.

5.2 Internal Audit

5.2.1 The Committee shall ensure that there is an effective internal audit function that meets the *Public Sector Internal Audit Standards 2013* and provides appropriate independent assurance to the Committee, Accountable Officer and Board of Directors. This will be achieved by:

- Considering the provision of the internal audit service and the costs involved
- Reviewing and approving the annual internal audit plan and more detailed programme of work, ensuring that this is consistent with the audit needs of the organization as identified in the Board Assurance Framework
- Considering the major findings of internal audit work (and management's response) and ensuring coordination between the internal and external auditors to optimize the use of audit resources
- Ensuring the internal audit function is adequately resourced and has appropriate standing within the organization
- Monitoring the effectiveness of internal audit and carrying out an annual review

5.3 External Audit

5.3.1 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 responses of their work. This will be achieved by:

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- Considering the appointment and performance of the external auditors and making recommendations to the Council of Governors
- Discussing and agreeing with the external auditors, before the audit

- commences, 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 organization and the impact of the audit fee
- Reviewing all external audit reports and any work undertaken outside of the audit plan, together with the appropriateness of management responses
- Ensuring there is in place a clear policy for the engagement of external auditors to supply non audit services

5.4 Counter Fraud

- 5.4.1 To satisfy itself that the organisation has adequate arrangements in place for counter fraud and security that meet NHS Protect standards and shall review the outcomes of work in these areas.

5.5 Financial Reporting

- 5.5.1 The Committee shall monitor the integrity of the financial statements of the Trust and any formal announcements made by the Trust in relation to its financial performance.

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

The Committee shall review the annual report and financial statements before submission to the Board of Directors, focusing particularly on:

- The wording of 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 miss-statements in the financial statements
- Significant judgments in preparation of the financial statements
- Significant adjustments resulting from the audit
- Letters of representation
- Explanations for significant variances

5.6 Governance

- 5.6.1 To review on behalf of the Board of Directors the operation of, and proposed changes to the Governance manual including standing financial instructions, the constitution, codes of conduct and standards of business conduct; including maintenance of registers.

- 5.6.2 To examine the circumstances of any significant departure from the requirements of any of the foregoing at 5.6.1, whether those departures relate to a failing, an overruling or a suspension.

- 5.6.3 To review the scheme of delegation.

- 5.6.4 To ensure that action plans relating to regulatory requirements are monitored and delivered

5.7 Raising concerns

- 5.7.1 The Committee shall review the effectiveness of the arrangements in place for allowing staff to raise (in confidence) concerns about possible improprieties in financial, clinical or safety matters and ensure that any such concerns are investigated proportionally and independently.

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5.8 Other

5.8.1 To review performance indicators relevant to the remit of the Audit Committee.

5.8.2 To examine any other matter referred to the Audit Committee by the Board of Directors and to initiate investigation as determined by the audit committee.

5.8.3 To ensure the effective use of the Board Assurance Framework to guide the Audit Committee's work. This will include utilising and reviewing the work of the internal audit, external audit and other assurance functions as well as the CQC's Intelligent Monitoring report and reports and assurances sought from directors and managers and other investigatory outcomes so as fulfill its functions in connection with these terms of reference.

5.8.4 To consider the outcomes of significant reviews carried out by other bodies which include but are not limited to regulators and inspectors within the health sector and professional bodies with responsibilities that relate to staff performance and functions.

6. Equality and Diversity

Ensure that equality and diversity and due consideration to the Human Rights Act are regarded in all aspects of the Audit Committee's work. In addition, the Committee will have regard for the NHS Constitution in delivering its objectives.

7. Membership

The Audit Committee, shall be appointed by the Board and shall comprise all independent non-executive directors (excluding the Chairman), at least one of whom must have recent and relevant financial experience.

8. Attendance

8.1 The Chief Finance Officer, Director of Corporate Affairs and appropriate internal and external audit representatives shall normally attend meetings of the Audit Committee. The counter-fraud specialist will attend a minimum of two meetings per year.

8.2 The Accountable Officer should be invited to attend at least annually to discuss the process for assurance that supports the Annual Governance Statement (AGS). He / she should attend when the Committee considers the draft AGS and the annual report and accounts.

8.3 Other directors and/or managers shall be invited to attend those meetings in which the audit committee will consider areas of risk or operation that are their responsibility.

8.4 Representatives from other organisations (e.g. NHS Protect) and other individuals may be invited to attend on occasion.

8.5 The secretary to the audit committee will provide administrative support and attend to record the minutes. In addition, the secretary will provide appropriate support to the Chair and Committee members.

9. Quorum and Frequency

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9.1 A quorum shall be two members.

9.2 The Committee shall meet at least 4 times each year with an additional meeting/s scheduled for approval of the annual accounts. At least once per year the Committee shall meet privately with the external and internal auditors

10. Reporting

10.1 The minutes of all meetings of the audit committee shall be formally recorded and the approved minutes submitted, together with recommendations where appropriate, to the next meeting of the Board of Directors. The submission to the Board of Directors may take the form of a 'BAF Key Issues' report and should include details of any matters in respect of which actions or improvements are needed. This will include details of any evidence of potentially ultra vires, otherwise unlawful or improper transactions, acts, omissions or practices or any other important matters. To the extent that such matters arise, the chair of the Audit Committee shall present details to a meeting of the board of directors in addition to submission of the minutes.

10.2 The Committee will report annually to the Board of Directors in respect of the fulfillment of its functions in connection with these terms of reference. Such report shall include but not be limited to functions undertaken in connection with the Annual Governance Statement and any significant issues that the Committee has considered in relation to the financial statements; the fitness for purpose of the Board Assurance Framework; the effectiveness (completeness and embeddedness) of risk management within the trust; the integration of and adherence to governance arrangements; the appropriateness of evidence that shows the organisation is fulfilling regulatory requirements relating to its existence as a functioning business; the robustness of the processes behind the quality accounts

10.3 The Chair of the Committee shall provide a regular report to the Council of Governors.

10.4 The foundation trust's annual report shall include a section describing the work of the Audit Committee in discharging its responsibilities.

11. Conduct of Meetings

The Chair of the Committee will ensure that the appropriate processes are followed:

- Minutes are kept by the secretary to the committee
- The agenda is drafted and agreed by Chair prior to circulation
- An action log is maintained and actions followed up between meetings
- The agenda and supporting papers will be sent out to committee members 5 working days prior to the committee, unless authorised by the Chair for exceptional circumstances
- Authors of papers presented must use the required template and indicate whether the paper is for decision by the committee, for discussion, for information or for approval.
- Presenters of papers can expect all committee members to have read the papers and should keep to a summary that outlines the purpose of their paper/report and key issues. Committee members may question the presenter.
- The Chair shall ensure that the Committee members receive the development and training they need.