Terms of Reference - Audit & Risk Committee

1 Constitution of the Committee

The Audit & Risk Committee is a statutory Committee established by the Board of Directors to monitor, review and report to the Board on the suitability and efficacy of the Trust’s provisions for governance, risk management and internal control.

2. Purpose and Function

The purpose and function of the Committee is to:

2.1 monitor the integrity of the financial statements of the Trust, any formal announcements relating to the Trust’s financial performance, and reviewing significant financial reporting judgements contained in them.

2.2 monitor, review and report to the Board of Directors on the adequacy of the processes for governance, assurance, and risk management, and facilitate and support the attainment of effective processes through its independence.

2.3 review the effectiveness of the Trust’s internal audit and external audit function.

2.4 provide assurance to the Board of Directors that an appropriate system of internal control is in place to ensure that Trust business is conducted in accordance with the legal and regulatory standards, and affairs are managed to secure economic, efficient and effective use of resources with particular regard to value for money.

2.5 report to the Board of Directors on the discharge of its responsibilities as a Committee.

3. Authority

The Committee is:

3.1 A Non-Executive Committee of the Trust Board of Directors, reporting directly to the Board of Directors, with no executive powers, other than those specifically delegated in these Terms of Reference.

3.2 Authorised by the Board to investigate any activity within its Terms of Reference, to seek any information it requires from any officer of the Trust, and to call any employee to attend a meeting of the Committee to support its work, as and when required.

3.3 Authorised by the Board of Directors to secure the attendance of individuals and authorities from outside the Trust with relevant experience and expertise if it considers this necessary for the exercise of its functions, including whatever professional advice it requires (as advised by the Trust Secretary).

3.4 Provision exists for an alternate voting Non-Executive Director to attend the Committee in place of another voting Non-Executive Member.
4. Membership and Quorum

Membership

4.1 Members of the Committee will be appointed by the Board of Directors and will be made up of at least three members.

4.2 All members of the Committee will be independent Non-Executive Directors. One of the members will be appointed by the Board of Directors as the Chair of the Committee and a second member will be appointed as Vice-Chair.

4.3 At least one member will have a formally recognised professional accountancy qualification and/or a level of relevant financial experience assessed as being appropriate to the role by the Nominations Committee, on behalf of the Board of Directors.

4.4 The membership will include:

- a Non-Executive member of the Finance and Performance Committee
- a Non-Executive member of the Quality & Safety Committee
- one or more Non-Executive members of the Board of Directors

4.5 The Chair of the Board of Directors will not be a member of the Committee but may be in attendance.

4.6 The Senior Independent Director of the Board of Directors will not be Chair of the Audit Committee.

4.7 Only members of the Committee have the right to attend Committee meetings. Alternate, or substitute, members may be agreed in advance with the Chair for a specific meeting but not for more than one. Other non-Committee members may be invited to attend and assist the Committee from time to time, according to particular items being considered and discussed.

4.8 In the absence of the Committee Chair, the Vice-Chair will chair the meeting. Members are expected to attend all meetings and will be required to provide an explanation to the Chair of the Committee if they fail to attend more than two meetings in a financial year.

4.9 The Director of Finance will act as the Executive lead for the Committee and will attend all meetings. At least one further Executive team member will be in attendance at each meeting.

4.10 The Chief Executive and other members of the Executive team should be invited to attend as appropriate with an expectation that if invited they should attend in person. In addition, the Chief Executive should be required to attend, at least annually, to discuss the process for assurance that supports the Annual Governance Statement.

4.11 External Audit and Internal Audit representatives will be invited to attend all meetings of the Committee. In addition, they will on occasion be invited to meet Committee members prior to the formal conduct of the business of the meeting without members of the Executive present.

4.12 The Council of Governors may nominate a Governor to attend each meeting of the Committee to observe proceedings. The observation of Board assurance committees by Governors will be subject to conditions agreed by the Board of Directors. The Chair of the Committee may in exceptional circumstances exclude Governors from being present for specific items.
4.13 The Trust Secretary, or their designated deputy, will act as the Committee Secretary. The Trust Secretary, or a suitable alternative agreed in advance with the Chair of the Committee, will attend all meetings of the Committee.

4.14 All members of the Committee will receive training and development support before joining the Committee and on a continuing basis to ensure their effectiveness as members, supported by the process of annual appraisal, as agreed by the Board of Directors.

4.15 An attendance record will be held for each meeting and an annual register of attendance will be included in the annual report of the Committee to the Board of Directors.

**Quorum**

4.16 The quorum necessary for the transaction of business will be two members, one of whom shall either be the Chair or Vice-Chair, as specified in 4.2.

4.17 A duly convened meeting of the Committee at which a quorum is present will be competent to exercise all or any of the authorities, powers and discretions delegated to the Committee.

**5. Duties**

5.1 The Committee will undertake the duties detailed in the NHS Audit Committee Handbook (HFMA latest edition) and will have regard to the Audit Code for NHS Foundation Trusts. The Committee will carry out the duties below for the Foundation Trust and major subsidiary undertakings as a whole, as appropriate. These duties will include:

5.2 **Financial Reporting**

The Committee will:

- ensure that the systems for financial reporting to the Board of Directors, including those of budgetary control, are subject to review as to the completeness and accuracy of the information provided;

- ensure the integrity of the Annual Report and Financial Statements of the Trust before submission to the Board of Directors, and any other formal announcements relating to its financial performance, reviewing significant reporting issues and judgements which they contain, and including the meaning and significance of the figures, notes and significant changes; accounting policies and practices followed, and significant changes; explanation of estimates or provisions having material effect; the schedule of losses and special payments and any reservations and disagreements between internal and external auditors not resolved;

- review summary financial statements, significant financial returns to regulators and any financial information contained in other official documents, including the Annual Governance Statement;

- review the consistency of, and changes to, accounting policies across the Trust and its subsidiary undertakings including the operation of, and proposed changes to, the Corporate Governance Manual, Standing Orders, Standing Financial Instructions, Scheme of Delegation.
and Reservation of Powers, Matters Reserved to the Board and Standards of Business Conduct, including maintenance of registers and the Fraud Response Plan;

- review the methods used to account for significant or unusual transactions where different approaches are possible (including unadjusted mis-statements in the financial statements);

- receive and review an annual report on special severance payments made during the year via a settlement agreement, including those approved by the Remuneration Committee;

- review whether the Trust has followed appropriate accounting standards and made appropriate estimates and judgements, taking into account the views of the External Auditor;

- review the clarity of disclosure in the Trust’s financial reports and the context in which statements are made.

5.3 Governance, Risk Management and Internal Control

The Committee will 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 organisation’s objectives;

- the adequacy of risk and control related disclosure statements, in particular the Annual Governance Statement, together with the Head of Internal Audit Opinion, External Audit Opinion or other appropriate independent assurances, prior to endorsement by the Board of Directors;

- the effectiveness of systems and processes for risk management in the Trust, in accordance with the Risk Management Strategy and Policy, including arrangements for the development and review of the Board Assurance Framework and the Corporate Risk Register;

- the Board Assurance Framework and 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, any related reporting and self-certifications, and work related to counter fraud and security, as required by the NHS Counter Fraud Authority;

- the policies for managing and investigating complaints and legal claims against the Trust, including referrals to the NHS Litigation Authority;

- the Register of Directors’ Interests; and Register of Gifts and Hospitality on a regular basis, and not less than annually.
5.4 Internal Audit and Counter Fraud

The Committee will:

- ensure that there is an effective Internal Audit function that meets the Public Sector Internal Audit Standards and provides appropriate independent assurance to the Committee, Chief Executive, and Board of Directors;

- consider and approve the Internal Audit strategy and annual plan, and ensure it has adequate resources and access to information, including the Board Assurance Framework, to enable it to perform its function effectively and in accordance with the relevant professional standards. The Committee will also ensure the function has adequate standing and is free from management or other restrictions;

- review all reports on the Trust from the Internal and External Auditors which identify “limited assurance” or “no assurance”;

- review and monitor, on a sample basis, the Executive Management’s responsiveness to the findings and recommendations of audit reports, and ensure coordination between Internal and External Auditors to optimise use of audit resource;

- meet the Head of Internal Audit on a formal basis, at least once a year, without Executive directors or management, to consider issues arising from the internal audit programme and its scope and impact. The Head of Internal Audit will be given the right of direct access to the Chair of the Committee, Chief Executive, Board of Directors, and to the Committee;

- assure itself that the Trust has policies and procedures for all work related to fraud and corruption as set out in Secretary of State Directions and as required by the NHS Counter Fraud Authority;

- assess the effectiveness of Counter Fraud services once every five years through a full process of review;

- monitor the implementation of the policy on standards of business conduct for directors and staff (i.e. Codes of Conduct and Accountability) in order to offer assurance to the Board of Directors on probity in the conduct of the Trust’s business.

5.5 External Audit

The Committee will:

- consider and make recommendations to the Council of Governors, in relation to the appointment, re-appointment and removal of the Trust’s External Auditor;

- work with the Council of Governors to manage the selection process for new auditors. If an auditor resigns, the Committee will investigate the reasons, and make any associated recommendations to the Council of Governors;

- receive assurance of External Auditor compliance with the Audit Code for NHS Foundation Trusts;
• approve the External Auditor’s remuneration and terms of engagement, including fees for audit or non-audit services and the appropriateness of fees, to enable an adequate audit to be conducted;

• agree and review the policy regarding the supply of non-audit services by the External Auditor and monitor that service, taking into account relevant ethical guidance

• 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;

• meet the External Auditor at least once a year, without management being present; to discuss their remit and any issues arising from the audit;

• establish with the External Auditors, the nature and scope of the audit, as set out in the annual plan before the audit commences;

• review all External Audit reports, including the report to those charged with governance (before its submission to the Board of Directors) and any work undertaken outside the annual audit plan, together with the appropriateness of management responses.

5.6 Other Board Assurance Functions

The Committee will:

• oversee the maintenance of the policy framework of the Trust, including the Policy for the Development of Procedural Documents and Corporate Governance Manual;

• review arrangements by which staff may raise, in confidence, concerns about possible improprieties in matters of financial reporting and control, clinical quality, patient safety or other matters, ensuring that arrangements are in place for the proportionate and independent investigation of such matters and for appropriate follow-up action. The Committee will receive an annual report on the application of the Trust policy on raising concerns;

• monitor and receive assurance on compliance with the Trust’s ‘Speaking Out’ Policy and ensure that the policy allows for proportionate and independent investigation of such matters and appropriate follow-up action;

• review the findings of other significant assurance functions, both internal and external to the Trust, and consider the implications for the governance of the Trust. These will include, but not be limited to, any reviews undertaken by the Department of Health Arms-Length Bodies, Regulators, and professional bodies with responsibility for the performance of staff or functions;

• review the work of other Committees within the organisation whose work can provide relevant assurance to the Audit Committee’s own scope of work and in relation to matters of quality affecting the Board Assurance Framework, including the Quality & Safety Committee, the Finance and Performance Committee and the People Committee [proposed];
• ensure there is no duplication of effort between the Committees, and that no area of assurance is overlooked as part of its responsibility for reviewing the Annual Governance Statement prior to submission to the Board of Directors;

• review issues around clinical risk management and satisfy itself on the assurance that can be gained from the Clinical Audit function, including receiving the Clinical Audit Annual Plan and Annual Report and other updates on progress throughout the year to maintain process oversight;

• receive a schedule of losses and compensations and approve appropriate write-offs;

• review registers relating to the Standards of Business Conduct Policy and consider any breaches and action taken;

• every decision by the Council of Governors or the Board of Directors to suspend their respective Standing Orders.

5.7 In fulfilling its responsibilities, 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 overarching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.

6 Reporting and Accountability

6.1 The Committee Chair will report formally to the Trust Board of Directors on its proceedings after each meeting on all matters within its duties and responsibilities, summarising areas where action or improvement is needed.

6.2 The Committee will report to the Trust Board annually on its work in support of the Annual Governance Statement. The annual report will:

• set out clearly how the committee is discharging its responsibilities
• include a statement referring to any non-audit services provided by the external auditors, and if so, how auditor objectivity and independence is safeguarded
• set out details of the full auditor appointment process, and where the Council of Governors decide not to accept the recommendations of the Committee, a statement setting out (a) an explanation of the Committee’s recommendation in relation to the appointment, re-appointment or removal of the external auditor and (b) the reasons the Council of Governors has chosen not to accept those reasons
• provide explanatory details, where during the year the External Auditor’s contract is terminated in disputed circumstances, on the removal process and the underlying reasons for removal
• be signed by the Chair of the Audit Committee
• be presented to the Annual General Meeting, with the Chair of the Audit Committee in attendance to respond to any stakeholder questions on the Committee’s activities

6.3 The Chair of the Committee will write to the Independent Regulator of NHS Foundation Trusts (NHS Improvement) in those instances where the services of the External Auditor are terminated in disputed circumstances.
6.4 Where exceptional, serious or improper activities have been revealed by the Committee, the Chair of the Committee will write to NHS Improvement, if insufficient action has been taken by the Board of Directors after being informed of the situation.

6.5 The Terms of Reference will be reviewed by the Committee and approved by the Board of Directors on a minimum basis of every two years.

7 Committee Administration

7.1 The Committee will meet a minimum of five times a year and at such other times as the Chair of the Committee, in consultation with the Committee Secretary, will require allowing the Committee to discharge all of its responsibilities.

7.2 The Chair may at any time convene additional meetings of the Committee to consider business that requires urgent attention.

7.3 The agenda will be set in advance by the Chair, with the Trust Secretary and Executive lead, reflecting an integrated cycle of meetings and business, which is agreed each year for the Board and its Committees, to ensure it fulfils its duties and responsibilities in an open and transparent manner.

7.4 Notice of each meeting confirming the venue, time and date, together with an agenda of items to be discussed, will be made available to each member of the Committee, no less than five working days’ before the date of the meeting in electronic form. Supporting papers will normally be made available no later than three working days before the date of the meeting.

7.5 Committee papers will include an outline of their purpose and key points in line with the Trust’s committee protocol, and make clear what actions are expected of the Committee.

7.6 The Chair will establish, at the beginning of each meeting, the existence of any conflicts of interest and ensure these are recorded in the minutes accordingly.

7.7 The Committee secretary will minute the proceedings of all Committee meetings, including recording the names of those present, in attendance and absent. Draft minutes of Committee meetings will be made available promptly to all members of the Committee, normally within 10 working days of the meeting.

7.8 The Committee will, at least once a year, review its own performance, using a process agreed for all Board committees by the Board of Directors.

Approved by the Board: 27 March 2019