

TRUST BOARD PUBLIC – JANUARY 2014

Agenda Item Number: 13/15  
Enclosure Number: (7)

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|-----------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------|
| <b>Subject:</b>                                                                         | Audit Committee Terms of Reference                                                           |
| <b>Prepared by:</b><br><b>Sponsored &amp; Presented by:</b>                             | Susan Boyle, Committee Secretary<br>Peter Mellor, Director of Corporate Affairs and Business |
| <b>Purpose of paper</b>                                                                 | Requires approval                                                                            |
| <b>Key points for Trust Board members</b>                                               | The Trust Board are asked to approve the Terms of Reference for the Audit Committee.         |
| <b>Options and decisions required</b>                                                   | N/A                                                                                          |
| <b>Next steps / future actions:</b>                                                     | The Trust Board ratifies the Terms of Reference.                                             |
| <b>Consideration of legal issues (including Equality Impact Assessment)?</b>            | N/A                                                                                          |
| <b>Consideration of Public and Patient Involvement and Communications Implications?</b> | N/A                                                                                          |

| Links to Portsmouth Hospitals NHS Trust Board Strategic Aims, Assurance Framework/Corporate Risk Register |     |
|-----------------------------------------------------------------------------------------------------------|-----|
| <b>Strategic Aim</b>                                                                                      | N/A |
| <b>BAF/Corporate Risk Register Reference (if applicable)</b>                                              | N/A |
| <b>Risk Description</b>                                                                                   | N/A |
| <b>CQC Reference</b>                                                                                      | N/A |

| <b>Committees/Meetings at which paper has been approved:</b> | <b>Date</b>  |
|--------------------------------------------------------------|--------------|
| Audit Committee                                              | January 2015 |

## AUDIT COMMITTEE TERMS OF REFERENCE

### Constitution

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

### Purpose

The purpose of the Audit Committee is to provide the Trust Board with an independent and objective review of internal control.

### 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 review the adequacy of:

- All risk and control related disclosure statements (in particular the Annual Governance Statement and declarations of compliance with the Care Quality Commission requirements), together with any accompanying Head of Internal Audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Trust Board.
- The underlying assurance processes that indicate the degree of the achievement of strategic objectives and the effectiveness of the management of the principal risks.
- The effectiveness of the management of principal risks via the Assurance Framework prior to endorsement by the Trust Board.
- The policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements.
- The policies and procedures for all work related to fraud and corruption as set out in the Secretary of State directives and as required by the Counter Fraud and Security Management Service.

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 audit functions. 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. This will be evidenced through the Committee's use of an effective Assurance Framework to guide its work.

### Internal Audit

The Committee shall ensure that an effective internal audit function is established that meets mandatory NHS Internal Audit standards and provides appropriate independent assurance to the Audit Committee, Chief Executive and Trust Board. 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 organisation as identified in the Assurance Framework.
- Consideration of the major findings of internal audit work and the management's response and ensuring that the agreed recommendations are enacted.
- Ensuring co-ordination between Internal and External Auditors to optimise audit resources.
- Ensuring that the Internal Audit function is adequately resourced and has appropriate standing within the organisation.
- Annual review of the effectiveness of internal audit.

#### External Audit

The Committee shall review the work and findings of the External Auditor and consider the implications and management responses to their work. This will be achieved by: -

- Consideration of the provision of the External Audit service, the cost of the audit and any performance issues
- 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 co-ordination, as appropriate, with other External Auditors, in the local health economy.
- Discussion with the External Auditors of their local evaluation of audit risks and overall assessment of the Trust and associated impact on the audit fee.
- Review all External Auditor reports, including agreement of the annual audit letter before submission to the Trust Board and any work carried out outside the annual audit plan, together with the appropriateness of management responses.

#### 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 Trust.

This will include, but will not be limited to: any reviews by the Department of Health, Arms Length Bodies or Regulators/Inspectors (e.g. Care Quality Commission, NHS Litigation Authority, 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 Audit Committee's own scope of work. This will particularly include the Governance & Quality Committee.

In reviewing the work of the Governance & Quality Committee, and issues around clinical risk management, the Audit Committee will wish to satisfy itself on the assurance that can be gained from the clinical audit function.

## Financial Reporting

The Committee shall review the Annual Report and Financial Statements before submission to the Trust 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 and practices.
- Unadjusted misstatements in the financial statements
- Major judgemental areas
- Significant adjustments resulting from the audit

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

## **Authority**

The Committee is authorised by the Trust Board to investigate or approve 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 Trust Board 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.

## **Reporting**

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

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

## **Membership**

The Committee shall be appointed by the Trust Board from amongst the Non-Executive Directors of the Trust and shall consist of not less than three members. The Trust Board will appoint one of the members to be Chair of the Committee. The Chairman of the organisation shall not be a member of the Committee.

The Committee shall consist of:

|                                            |                                                                                                                                                                                                                                                               |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| <b>Voting Membership<br/>In Attendance</b> | 3 Non-Executive Directors<br>Director of Finance<br>Director of Corporate Affairs and Business Development<br>Head of Financial Accounting<br>Head of Governance<br>Head of Internal Audit<br>External Audit<br>Internal Audit<br>Local Counter Fraud Officer |
|--------------------------------------------|---------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

## **Attendance**

Attendance is required at all meetings. Members unable to attend should indicate in writing to the Committee Secretary 7 days in advance of the meeting (except in extenuating circumstances of absence).

The Director of Finance, the Director of Corporate Affairs, the Head of Financial Accounting, Head of Governance and appropriate Internal Audit 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.

Executive Directors and Senior Managers can be invited to attend, but particularly when the Committee is discussing areas of risk or operation that are the responsibility of that Director or Senior Manager.

The Chief Executive should be invited to attend, at least annually, to discuss the Audit Committee process for the assurance that supports the Annual Governance Statement.

A minute taker must be in attendance to take minutes of the meeting.

## **Meetings**

- Meetings will be held on at least a bi-monthly basis.
- The meeting will have a predetermined agenda that will be sent out to Committee members one week before the scheduled meeting date.
- Items for the agenda must be sent to the Committee Secretary 1 week prior to the meeting, urgent items may be raised under any other business.
- The External Auditor or Head of Internal Audit may request the Chair to call a special meeting if this is considered necessary.

## **Quorum**

The meeting will be quorate with two voting members in attendance.

## **Other Matters**

The Chair of the Committee will take advice on the content of the agenda and will be responsible for ensuring actions are taken forward through appropriate dissemination of the minutes. The Chair of the Committee may also invite or co-opt other members as appropriate.

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

- Drafting of the agenda for the agreement of the Chair and collation of papers.
- Ensuring the taking of minutes and that a record of matters arising and issues to be carried forward is kept.
- Advising the Committee on scheduled agenda items.
- Drafting of the annual plan for agreement of the Chair.

## **Monitoring Effectiveness**

In order that the Committee can be assured that it is operating at maximum effectiveness in discharging its responsibilities as set out in these terms of reference and, if necessary, to recommend any changes to the Trust Board, the Chair will ensure that once a year a review of the work/performance of the committee will be undertaken and considered against the NHS Audit Committee Handbook and reported to the next meeting of the Committee.

Local Counter Fraud and Internal and External Audit will aid the Committee in reviewing its effectiveness by providing feedback and comment on the Committee's effectiveness and activities during the year.

**Review**

The Terms of Reference will be reviewed on an annual basis and ratified by the Trust Board.

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|-------------------------------|--------------|
| Date agreed by the Committee: | January 2015 |
| Date ratified by Trust Board: | January 2015 |
| Date to be reviewed:          | January 2016 |