AUDIT COMMITTEE
24th April 2012

DRAFT TERMS OF REFERENCE
Terms of Reference

1. Purpose

The purpose of the Audit Committee is to support the Board and the Accounting Officer by reviewing the comprehensiveness of assurances in meeting the Board and Accounting Officer’s assurance needs and reviewing the reliability and integrity of these assurances.

To support this it will 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 the organisation’s objectives. There are also specific duties in respect of reviewing internal and external audit, management, financial reporting and other assurance functions as listed in these terms of reference.

2. Establishment and Constitution of the Committee

The Board 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 and has no executive powers, other than those specifically delegated in these Terms of Reference. The Committee is established in accordance with the Trust’s Standing Orders, Standing Financial Instructions and Scheme of Delegation.

3. Membership

The Committee shall be appointed by the Board from amongst the Non-Executive directors of the Trust and shall consist of not less than three members. A quorum shall be two members. One of the members will be appointed Chair of the Committee by the Board. The Chairman of the organisation shall not be a member of the Committee.

4. Attendance

The Director of Finance 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.

The Chief Executive and other executive directors should be invited to attend, but 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 Audit Committee the process for assurance that supports the Annual Governance Statement I. He or she should also attend when the Committee considers the draft internal audit plan and the annual accounts.
The Trust Secretary, or whoever covers these duties, shall be Secretary to the Committee and shall attend to take minutes of the meeting and provide appropriate support to the Chairman and committee members.

5. Frequency

The Committee must consider the frequency and timing of meetings needed to allow it to discharge all of its responsibilities. The Committee will hold a minimum of four meetings per annum at appropriate times in the reporting and audit cycle. The External Auditor or Head of Internal Audit may request a meeting if they consider that one is necessary.

6. Authority

The Committee is authorised by the Board 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 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.

7. Duties

The duties of the Committee can be categorised as follows:

7.1 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 the organisation’s objectives.

In particular, the Committee will review the adequacy of:

- all risk and control related disclosure statements (in particular the Annual Governance Statement), together with any accompanying 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
• 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 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 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.

This will be evidenced through the Committee’s use of an effective Assurance Framework to guide its work and that of the audit and assurance functions that report to it.

7.2 Internal Audit

The Committee shall ensure that there is an effective internal audit function established by management that meets mandatory NHS Internal Audit Standards and provides appropriate independent assurance to the Audit Committee, Chief Executive and 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 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 organisation

• annual review of the effectiveness of internal audit

7.3 External Audit

The Committee shall review the work and findings of the External Auditor 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

• review all External Audit reports, including the report to those charged with governance, agreement of the annual audit letter before submission to the Board and any work carried outside the annual audit plan, together with the appropriateness of management responses

7.4 Other Assurance Functions

The Audit 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 organisation.

These will include, but will not be limited to, any reviews by Department of Health arm’s 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 organisation, whose work can provide relevant assurance to the Audit Committee’s own scope of work. This will particularly include the Clinical Governance Committee and any Risk Management committees that are established.

In reviewing the work of the Clinical Governance 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.

7.5 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 organisation (e.g. clinical audit) as they may be appropriate to the overall arrangements.

7.6 Financial Reporting

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

The Audit Committee shall review the Annual Report and Financial Statements before submission to the 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 mis-statements in the financial statements
- major judgemental areas
- significant adjustments resulting from the audit

7.7 Reporting

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

The Committee will report to the Board annually on its work in support of the Annual Governance Statement, specifically commenting on the fitness for purpose of the Assurance Framework, the completeness and embeddedness of risk management in the organisation, the integration of governance arrangements, the appropriateness of the evidence compiled to demonstrate fitness to register with the CQC and the robustness of the process behind the quality accounts.

7.8 Compliance with Standing Orders, Standing Financial Instructions and Scheme of Delegation

In addition to reviewing the comprehensiveness of assurances in meeting the Board and Accounting Officer’s assurance needs and reviewing the reliability and integrity of these assurances, the Committee will specifically review tender waivers authorised by the Trust and the annual proposed bad debt write off.

8. Annual Review and Self-Assessment

The Committee will conduct an annual review of its effectiveness against its objectives, including an assessment of the skills and competencies of non-executive directors. Audit Committee members are provided with training relevant to their responsibilities.
9. Administration

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

- Agreement of agenda with Chairman and attendees and collation of papers
- Taking the minutes & keeping a record of matters arising and issues to be carried forward
- Advising the Committee on pertinent areas

The Committee will regularly review whether the reports it receives are timely, in an appropriate format, and contain sufficient information to ensure its internal control and risk management responsibilities are discharged.

10. Review

The terms of reference will be reviewed every year or sooner if necessary.