

Audit and Assurance Committee: Terms of Reference

1. Introduction

- 1.1 The AACs role is to develop, monitor and ensure development of integrated governance arrangements, providing assurance that bodies are well managed across the whole range of their activities. The AAC 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), which supports the achievement of the organisation's objectives. These terms of reference build on the work of the Cadbury Committee, Greenbury Reports and the reports by Smith, Higgs and Turnbull (reference "Combined Code – Principles of Good Governance and Code of Best Practice") and subsequent guidance and best practice in the private and public sector.

2. Constitution

- 2.1 The Board hereby resolves to establish a committee of the Board to be known as the Audit and Assurance Committee (The Committee).
- 2.2 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.

2. Membership

- 3.1 The Committee shall be appointed by the Board from the non-executive directors of the Trust and shall consist of not less than three members.
- 3.2 A quorum shall be two members.
- 3.3 The Board will appoint one of the members to be Chair of the Committee.
- 3.4 The Chairman of the organisation shall not be a member of the Committee.

4. Attendance

- 4.1 The Chief Finance Officer, Director of Corporate Affairs 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.
- 4.2 The Committee shall request the attendance of the Executive Directors when discussing risk or requiring assurance in relation to their areas of responsibilities.
- 4.3 As Accountable Officer, the Chief Executive has an open invitation to attend each Board sub-committee
- 4.4 The Head of Corporate Governance shall be the 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

- 5.1 Meetings shall be held not less than five times a year and normally will take place every two months.

- 5.2 The External Auditor or Head of Internal Audit or Counter Fraud representatives may request a meeting is held if they consider that one is necessary. This is to be agreed by the Chair of the Committee.

6. Authority

- 6.1 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.
- 7.1 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of persons external to the Trust 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

- 7.1.1 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), which 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 national regulatory frameworks, 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
 - the Trust's internal control framework, supported by the other subcommittees of the Board.
- 7.1.2 In carrying out this work the Committee will primarily utilise the work of internal audit, external audit and other assurance functions to ensure review is external, but will not be limited to these. 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.

7.1.3 In relation to the Board Assurance Framework the committee will use this to guide its work and will provide assurance that the controls and actions taken to address any gaps are robust and support the delivery of corporate objectives.

7.2 Internal Audit

The Committee shall ensure there is an effective internal audit function established by management, which provides appropriate independent assurance to the Audit Committee, Chief Executive and Board and meets mandatory Public sector Internal Audit Standards. This will be achieved by:

- consideration of the provision of the internal audit service and the cost of audit
- review and approval of the internal audit strategy, operational plan and the more detailed programme of work, ensuring this is consistent with the audit needs of the organisation as identified in its approved 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 the internal audit function is adequately resourced
- annual review of the effectiveness of internal audit (through external audit and performance against its work plan and performance indicators).

7.3 External Audit

The Board has appointed the Audit Committee as its Audit Panel which will review and make a recommendation to the Trust Board on selection of external audit provision.

The Chief Finance Officer or the Director of Corporate Affairs should also sit as a member of the Audit Panel and provide advice and support.

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

- As the Audit Panel the Committee shall carry out ongoing review of External Audit service provision.
- 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 evaluation of local audit risks and assessment of the Trust and its associated impact on the audit fee

- review all External Audit reports, including 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

- 7.4.1 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 organisation. These will include, but will not be limited to, any reviews by Department of Health Arms Length Bodies or Regulators/Inspectors (e.g. CQC, NHS Litigation Authority, etc.), professional bodies with responsibility for the performance of staff or functions (e.g. Royal Colleges, accreditation bodies, etc.), reports by the Trust's local counter fraud specialist.
- 7.4.2 In addition, the Committee will review the work and function of other committees, working groups and senior responsible officers within the organisation, whose work can provide relevant assurance to the Committee's own scope of work.
- 7.4.3 In reviewing work of around clinical risk management, the Committee will wish to satisfy itself on the assurance that can be gained from the clinical audit function and outcome measures from the Trusts clinical benchmarking systems.

8. 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 appropriate.

9. Financial Reporting

- 9.1 The 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 judgmental areas
 - significant adjustments resulting from the audit
- 9.2 The Committee should also ensure (through management reporting, internal and external audit reporting) the systems for financial reporting to the Board, including those of budgetary control, are effective and that reporting provides complete and accurate information about the Trust's financial position.

10. Reporting

- 10.1 The minutes of the 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.
- 10.2 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 embedding of risk management in the organisation, the integration of governance arrangements.

11. Other Matters

The Secretary to the Committee shall be the Head of Corporate Governance whose duties in this respect will include the following, shall support the Committee administratively:

- Agreement of agenda with Chairman and attendees and collation of papers
- Organising the attendance of appropriate persons to meetings (other than those who would usually attend)
- Taking the minutes and keeping a record of matters arising and issues/ actions to be carried forward
- Advising the Committee on pertinent matters

Audit and Assurance Committee: Standing Agenda

1 General Business

Apologies
Declaration of interests
Minutes of previous meeting
Agreed actions tracker

2 Risk Management

Board Assurance Framework
Risk Management Systems

3 Internal Control Systems

Review annual governance statement
Review internal controls
Note business of other committees

4 Specific Duties

Review annual accounts
Reviews losses waivers and special payments

5. Independent Assurance

Receive and approve annual internal audit plan and updates
Receive and approve annual external audit plan and updates
Receive and approve other sources of external assurance
such as Counter Fraud)

6 Specific Duties

Review of other reports and policies as appropriate (e.g.
changes to standing orders)
Review of audited annual accounts and financial statements
Review changes to standing financial instructions and

changes to accounting policies

Audit and Assurance Committee: Meeting Timetable

The meetings shall occur at regular intervals throughout the year and shall receive reports in a sequence that allows the Committee to review annual reports with foresight of other relevant assurance reports. The expected timetable of the Committee is set out below:

Audit and Assurance Committee Timetable

	March	May	July	Sept	Nov	Jan
1. Plan how to discharge Audit Committee duties						✓
2. Self-assess Committee's effectiveness					✓	
3. Review Committee's terms of reference	✓					
4. Produce annual Audit Committee report						✓
5. Private discussions with internal and external audit	✓	✓	✓	✓	✓	✓
Risk Management						
6. Review the Board Assurance Framework in Full	✓		✓	✓	✓	✓
7.						
8. Review the risk management system in full					✓	
9. Receive the Significant Risk Register	✓		✓	✓	✓	✓
Internal Control Systems						
10. Note business of other committees and review inter-relationships			✓			✓
11. Review draft Annual Governance Statement	✓					✓
12. Review Internal Controls and work plan			✓			
13. Review specific elements of internal control	✓		✓	✓	✓	✓
Specific Duties						
14. Review of other reports and policies as appropriate – for example, changes to standing orders	✓		✓	✓	✓	✓

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| 15. Review of audited annual accounts and financial statements | ✓ | ✓ | | | | |
| 16. Review changes to standing financial instructions and changes to accounting policies | ✓ | | | | | |
| 17. Review of losses and special payments | ✓ | | | ✓ | | |

Independent Assurance

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| 18. Receive sources of assurance of external assurance | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 19. Review and approve annual internal audit plan | | ✓ | ✓ | | | |
| 20. Review and approve internal audit terms of reference | | | ✓ | | | |
| 21. Review the effectiveness of internal audit | | | ✓ | | | |
| 22. Review internal audit progress reports | ✓ | | ✓ | ✓ | ✓ | ✓ |
| 23. Receive annual internal audit report and associated opinions | | | ✓ | | | |
| 24. Agree external audit plans and fees | | | | | ✓ | ✓ |
| 25. Review the effectiveness of external audit | | | ✓ | | | |
| 26. Review external audit progress reports | ✓ | | ✓ | ✓ | ✓ | ✓ |
| 27. Receive the External Auditor's report to those charged with governance | | ✓ | | | | |
| 28. Receive the External Auditor's annual audit letter | | ✓ | | | | |
| 29. Review and approve annual counter fraud plan | | | ✓ | | | |
| 30. Review counter fraud progress reports | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ |
| 31. Review the organisation's assessment against CFSMS qualitative assessments | | | | | ✓ | |
| 32. Review the effectiveness of the Local Counter Fraud Specialist | | | | | ✓ | |
| 33. Receive counter fraud annual report to AAC | | ✓ | | | | |