

Appendix B

Document title: **Audit Committee of the Board of Directors: Terms of Reference**

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Key points of this document

- Terms of Reference for a Committee of the Board of Directors.
- These terms of reference will be available on the Trust's website as required under Schedule A of Monitor's **The NHS Foundation Trust Code of Governance as required for Audit Committee terms of reference.*

**Monitor became part of NHS Improvement (NHSI) in April 2016 – references to Monitor remain throughout where these relate to documents issued by Monitor and not re-published by NHSI.*

1 Constitutional Authority:

- 1.1 The Audit Committee is a Committee of the Board of Directors as established under the constitution and Monitor's NHS Foundation Trust Code of Governance. The Committee is a non-executive committee of the Board and has no executive powers, other than those delegated in these terms of reference.

2 Purpose/Objectives:

- 2.1 Provide Assurance to the Board that here is an effective structure, process and system of control for:
- Corporate Governance
 - Financial Governance
 - Investment Governance
 - Financial Reporting
 - Achieving Best Value
 - Fraud Management
 - Annual Governance Statement compliance
- 2.2 Work with External and Internal Auditors to deliver Assurance.
- 2.3 Gain Assurance from the Quality & Risk Committee for the Risk Assurance Framework, CQC Compliance, Quality Reporting and Information Governance compliance. Gain assurance from the Performance Committee for Financial Governance and reporting (including Cost Improvement Programme and Capital Investment Governance).

3 Delegated Authority:

- 3.1 The Audit Committee is authorised by the Board of Directors to investigate any activity within its terms of reference, and to seek any information it requires from staff, who are requested to co-operate with the Committee in the conduct of its inquiries.
- 3.2 The Audit Committee is authorised by the Board of Directors to obtain independent legal and professional advice and to secure the attendance of external personnel with relevant experience and expertise, should it consider this necessary.
- 3.3 The Audit Committee advises the Quality and Risk Committee of concerns as relevant to the Annual Governance Statement.

4 Duties:

- 4.1 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 Royal Papworth Hospital's activities (both clinical and non-clinical) that supports the achievement of Royal Papworth Hospital's objectives.

In particular, the Committee will review the adequacy and effectiveness of:

- (a) all risk and control related disclosure statements (in particular the Annual Governance Statement), together with any accompanying Head of Internal Audit Opinion, external audit opinion or other appropriate independent assurances, prior to endorsement by the Board of Directors.
- (b) 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.
- (c) the policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self-certification, supported by assurances from the Quality and Risk Committee, Performance Committee, Strategic Projects Committee and Charitable Funds Committee (for charity matters).
- (d) the policies and procedures for all work related to fraud and corruption as set out in Secretary of State directions and as required by NHS Protect. This will include receipt of the anti-fraud and bribery annual report and anti-fraud and bribery work plan, to ensure that the Committee is satisfied with action taken under the annual report and that significant losses have been properly investigated and reported to the internal and external auditors and relevant external bodies.
- (e) review arrangements by which staff of Royal Papworth Hospital may raise, in confidence, concerns about possible improprieties in matters of financial reporting and control, clinical quality, patient safety or other matters.

In carrying out this function 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, the Quality and Risk Committee, the Performance Committee, the Charitable Funds Committee and managers as appropriate, concentrating on the overarching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.

This will be evidenced through the Committee's review of the assurance provided by the Quality and Risk Committee, Performance Committee, Strategic Projects Committee and Charitable Funds Committee (for charity matters) of their use of an effective Assurance Framework to guide their work and that of

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the assurance functions that report to them.

4.2 Internal Audit

The Committee shall ensure that there is an effective internal audit function established by management that meets the Public Sector Internal Audit Standards, 2016 and provides appropriate independent assurance to the Audit Committee, Chief Executive and Board of Directors. This will be achieved by:

- (a) consideration of the provision of the internal audit service, the cost of the audit and any questions of resignation and dismissal.
- (b) review and approval of the internal audit strategy, operational plan and more detailed programme of work, ensuring that these are consistent with the audit needs of Royal Papworth Hospital as identified in the Assurance Framework.
- (c) consideration of the major findings of internal audit reports (and management's response), and ensuring co-ordination between the internal and external auditors to optimise audit resources.
- (d) ensuring that adequate internal audit capacity is identified and purchased, and that the function has appropriate standing within the Hospital.
- (e) annual review of the performance and effectiveness of the internal audit service.

4.3 External Audit

The Committee should review and monitor the external auditors' independence and objectivity and the effectiveness of the audit process. The Committee shall review the work and findings of the external auditors appointed by the Council of Governors and consider the implications and management's responses to their work. This will be achieved by:

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- (a) consideration of the appointment, effectiveness and performance of the external auditor, including recommendations on appointment and removal to the Council of Governors.
- (b) the provision and cost of the external audit service.
- (c) discussion and agreement with the external auditor, before the audit commences, on the nature and scope of the audit as set out in the Annual Plan, ensuring coordination, as appropriate, with internal audit.
- (d) discussion with the external auditors of their local evaluation of audit risks and assessment of Royal Papworth Hospital and associated impact on the audit fee.
- (e) review all external audit reports, including the report to those charged with governance, agreement of the annual audit letter before submission to the Board of Directors and Council of Governors and any work undertaken outside the annual audit plan, together with the appropriateness of management responses.
- (f) ensuring that there is in place a clear policy for the engagement of external auditors to supply non audit services.
- (g) for the Charity Accounts discussion and agreement of the nature and scope of the audit and recommendation to the Charitable Funds Committee.

4.4 Other Assurance Functions

The Audit Committee shall review the findings of other significant assurance functions, both internal and external to Royal Papworth Hospital, and consider the governance implications for Royal Papworth Hospital.

These will include, but will not be limited to, any reviews by Department of Health arm's length bodies or regulators/inspectors (e.g. the 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 Royal Papworth Hospital, whose work can provide relevant assurance to the Audit Committee's own scope of work. In particular, this will include the Quality and Risk Committee, Performance Committee, Strategic Projects Committee and Charitable Funds Committee (for charity matters). In reviewing the work of the Quality and Risk 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.

4.5 Anti-Fraud and Bribery

The Committee will satisfy itself that Royal Papworth Hospital has adequate arrangements in place for countering fraud and security that meet NHS Protect's standards and shall review the outcomes of anti-fraud and bribery work.

4.6 Management

The Committee shall request and review reports, evidence and assurances from Directors and managers on the overall arrangements for governance, risk management and internal control.

The Committee may also request specific reports from individual functions within the organisation (for example, clinical audit).

4.7 Annual Report, Quality Report and Financial Statements

The Audit Committee shall review the Foundation Trust Annual Report, Quality Report and Financial Statements before submission to the Board of Directors and Council of Governors, focusing particularly on:

- (a) the wording in the Annual Governance Statement and other disclosures relevant to the terms of reference of the Committee.
- (b) changes in, and compliance with, accounting policies, practices and estimation techniques.
- (c) unadjusted mis-statements in the financial statements.
- (d) significant judgements in preparation of the financial statements.
- (e) significant adjustments resulting from the audit.
- (f) letters of representation.
- (g) qualitative aspects of financial reporting.
- (h) explanations for significant variances.
- (i) assurance from the Quality and Risk Committee on the Quality Report.
- (j) assurance from the Charitable Funds Committee on the Charity Annual Report.

The Committee should also:

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

Committee will be supported by the Performance Committee.

- (b) monitor the integrity of the financial statements of Royal Papworth Hospital and any formal announcements relating to the financial performance, reviewing significant financial reporting judgements contained in them. The Audit Committee will be supported by the Performance Committee.
- (c) review the adequacy and effectiveness of arrangements for economy and efficiency.

4.8 Whistle blowing

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 proportionately and independently.

5 Membership/Attendance:

Voting Membership

- 5.1 The Chair and members of the Audit Committee shall be appointed by the Board of Directors, in consultation with the Chair of the Audit Committee.
- 5.2 The Committee shall be made up of at least 3 independent Non-executive Directors, at least one of whom shall have recent and relevant financial experience. (Monitor Code C.3.1).

Chair: A nominated Non-executive Director
Two further nominated Non-executive Directors (to exclude the Chairman of the Trust).
Plus other Chairs of Board Committees.

Quorum

- 5.3 The Committee shall be deemed quorate if there is representation of a minimum of two Non-executive Directors.

Membership Attendance Requirements

- 5.4 The Committee will be required to have an overall attendance level of 50% from members in a rolling twelve month period.
- 5.5 In accordance with Monitor's Code of Governance attendance will be recorded during the year and reported in the annual report.

Attendance [Committee to confirm attendance as part of review]

- 5.6 Only members of the Committee have the right to attend Committee meetings; however the following shall normally be in attendance:

Director of Finance
Deputy Director of Finance
Trust Secretary
Head of internal audit
Representatives from the external auditors
The Local Counter Fraud Specialist will attend as required
Two Governors.

The Head of Internal Audit, representative of external audit and counter fraud specialist have a right of direct access to the Chair of the Committee.

- 5.7 The Chairman and Chief Executive shall be invited to attend the Audit Committee at least once a year, to discuss with the Audit Committee the process for assurance that supports the Annual Governance Statement.
- 5.8 Other Executive Directors shall be invited to attend, particularly when the Committee is discussing areas that are the responsibility of that Director.
- 5.9 Other Non-executive Directors, in particular the Chair of the Quality and Risk Committee, may be invited to attend.
- 5.10 A full set of agenda papers will also be sent to the Chairman, Chief Executive, Medical Director, Director of Nursing, Chief Operating Officer and Director of Workforce and OD.
- 5.11 The Committee will review its membership annually as part of a general review of its terms of reference. This review will be reported to the Board of Directors through the Committee's minutes.
- 5.12 Where possible, lengths of term shall be staggered to allow a modest turnover of members.

6 Meetings:

- 6.1 In the event of the Chair of the Committee being unable to attend, the remaining members should elect one of their members as Chair for the meeting.
- 6.2 The Committee shall be supported administratively by a member of Trust staff.
- 6.3 The Committee shall meet at least four times per financial year. One meeting of which must be arranged so that the Audit Committee can recommend the Annual Report, Quality Report and Accounts to the Board of Directors for

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submission to NHS Improvement and Parliament.

- 6.4 The External Auditor or Head of Internal Audit may request an extraordinary meeting if they consider one to be necessary.
- 6.5 At least once a year the Committee should meet privately with the External and Internal Auditors.
- 6.6 Agendas and briefing papers should be prepared and circulated in sufficient time for Committee Members to give them due consideration.

7 Conduct of Business:

- 7.1 The conduct of business will conform to guidance set out in the Board of Directors' Standing Orders, unless alternative arrangements are defined in these terms of reference.
- 7.2 The terms of reference of the Audit Committee shall be made publicly available in accordance with section C.3.2 of the NHS Foundation Trust Code of Governance.

8 Equality Statement:

The Committee will ensure that these terms of reference are applied in a fair and reasonable manner that does not discriminate on such grounds as race, gender, disability, sexual orientation, age, religion or belief.

9 Monitoring/Reporting:

- 9.1 Minutes of Committee meetings should be formally recorded and distributed to Committee Members and Attendees. Subject to the approval of the Chair, the Minutes will be submitted to the Board of Directors at its next meeting and may be presented by the Committee Chair. The Chair of the Committee shall draw to the attention of the Board of Directors any issues that require disclosure to the full Board of Directors, or require executive action.
- 9.2 The Committee will report to the Board of Directors 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 within Royal Papworth Hospital, the integration of governance arrangements, the appropriateness of the evidence compiled to demonstrate fitness of registration with the CQC and the robustness of the processes behind the Quality Accounts.
- 9.3 A section of the Annual Report will record the discharge of the Committee's duties.

10 Relationships with other Board Committees:

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The Audit Committee, the Quality and Risk Committee, the Performance Committee, the Strategic Projects Committee and the Charitable Funds Committee have a shared responsibility to provide assurances to the Board of Directors/Board of Trustees. As such, these Committees need to work collaboratively, to ensure that all aspects of governance are covered and that the Board receives comprehensive assurances on Royal Papworth Hospital's business and activities.

Further document information

<p>Approval – this is required for all documents. Approval should be by the relevant committee(s)*. State the name(s) of the committee(s) and the full date(s) of the relevant meeting(s):</p> <p>*In exceptional circumstances only, approval can be by Chair’s Action or by appropriate ED or NED – state full date of approval</p>	<p>Audit Committee</p>
<p>Approval date (<i>this version</i>) (Day, month, year):</p>	<p>31 January 2018</p>
<p>Approval by Board of Directors or Committee of the Board (required for Strategies and Policies only):</p>	<p>Board of Directors</p>
<p>Date (Day, month, year):</p>	<p>March 2018</p>
<p>This document supports: <i>standards and legislation – include exact details of any CQC & NHSLA standards supported</i></p>	<p>Monitor’s The NHS Foundation Trust Code of Governance 2014 Trust Constitution Annual Governance Statement</p>
<p>Key associated documents:</p>	<p>NHS Audit Committee Handbook 2014 Audit Code for NHSFTs 2014 DN142 Standing Orders DN140 Standing Financial Instructions DN137 Scheme of Delegation Quality & Risk Committee Terms of Reference Performance Committee Terms of Reference Charitable Funds Committee Terms of Reference</p>
<p>Counter Fraud In creating/revising this document, the contributors have considered and minimised any risks which might arise from it of fraud, theft, bribery or other illegal acts, and ensured that the document is robust enough to withstand evidential scrutiny in the event of a criminal investigation. Where appropriate, they have sought advice from the Trust’s Local Counter Fraud Specialist (LCFS).</p>	