

<b>Item Reference and Title</b>	<b>Agenda item 18b - Audit Committee Chair's Report to Board of Directors (BoD)</b>
<b>Date of Meeting</b>	Board of Directors' – 26 <sup>th</sup> November 2019 <b>(from Audit Committee Meeting – 19<sup>th</sup> November 2019)</b>
<b>Author(s)</b>	Rachel Hopwood - Chair
<b>Alignment to Board Assurance Framework risk</b>	CR7 – Failure to maintain robust corporate governance and overall assurance (risk score 12).
<b>Alignment to CQC Domains</b>	Well Led
<b>Summary</b>	This report is intended to: <ul style="list-style-type: none"> <li>• Outline the work of the Committee.</li> <li>• Highlight items for escalation or recommendation to Board.</li> </ul>
<b>Recommendation(s)</b>	<b>The Board is asked to:</b> <ul style="list-style-type: none"> <li>• Receive all items for escalation from Audit Committee.</li> </ul>

## 1.0 Key items of business discussed

The Audit Committee met on 19<sup>th</sup> November, 2019.

The meeting covered the following agenda items:

- *Standing Item:* Review of the Audit Committee Action Log
- *Standing Item:* Review of the audit tracker
- *Standing Item:* Review of the MIAA progress report, internal audit follow up report and Insight update – the following finalised reports were presented for review:
  - Disciplinary & Grievance Procedures Review – Limited Assurance;
  - Critical Applications review: Financial Systems – Moderate Assurance;
  - Sickness Absence Review – Substantial Assurance.
  - These will be sent to F&P Committee to monitor progress vs high risk issues & provide assurance that other action plans are being progressed appropriately.
- *Standing Item:* Receipt of KPMG's External Audit sector update
- Review of summary of Waivers and Tenders
- Annual review of Audit Committee's terms of reference
- Review of effectiveness of the Audit Committee (continuation from September's meeting)

A verbal update was also given on progress on the 2020/21 Internal Audit Plan which will be received by Committee in February.

The following Committee scheduled business was deferred to February 2020 scheduled meeting:

- Summary of Bad Debt Write Off
- Annual review of effectiveness of External & Internal Audit

## 2.0 Key agreements or decisions made

- The Current Chair, Mrs Hopwood is stepping down from the Trust on 30<sup>th</sup> November 2019. Mr Higgins, a long standing Committee member has agreed to stand in as lead, if required ahead of a new Chair appointment.
- Q&S Committee to be requested to understand why internal vs external (MIAA spot check reviews, CQC findings) quality findings have not always historically triangulated, and what changes are being put in place to improve the quality of assurances in the future.
- Risks identified during MIAA's 'Critical Applications review: Financial Systems', which have not been currently remediated, be added to the Board Assurance Framework and escalated for discussion at the next F&P Committee.
- A review of the current scope of Procurement has been requested from the Director of Finance, in light of recent major Estates capital contracts and the summary of Waivers and Tenders tabled.
- A Chair's action was taken to advise the interim Trust Secretary of amendments agreed in Audit Committee to the proposed ToR ahead of the document being tabled at Board of Directors on 26<sup>th</sup> November.

### **3.0 Items for escalation to Board**

- **Audit Committee Membership:** For the Committee to stay quorate, the Board of Directors is asked to appoint another Non-Executive Director to the Committee by 1<sup>st</sup> December.
- **Audit Committee Terms of Reference** have been reviewed and subject to Chair's action, are recommended to the Board of Directors for approval – The Board are asked to note the new responsibilities with request to Cyber-Security, and formal assurance reporting obligations to Audit Committee on the Chairs of Q&S and F&P.
- Board of Directors are asked to note the work currently being undertaken by Executive Colleagues in conjunction with MIAA Internal Audit to determine the 2020/21 Audit Plan. The Audit Committee met separately with MIAA on 18<sup>th</sup> November as part of the planning process, and directed that equal weighting should be given to qualitative assurance as to quantitative assurance in the scoping of internal audit work.
- The Board is asked to expedite receipt of completed MIAA audit reports at the appropriate sub-committees, to ensure actions plans are being monitored and risks closed on a timely basis.

### **4.0 Recommendation(s)**

4.1 Receive all items for escalation from Audit Committee.

***Proposed terms of reference for Audit Committee, as agreed by Audit Committee 19<sup>th</sup> November 2019 (subject to approval by Board)***

**COUNTESS OF CHESTER HOSPITAL NHS FOUNDATION TRUST**

**AUDIT COMMITTEE  
TERMS OF REFERENCE**

**1.0 PURPOSE**

- 1.01 The purpose of the Audit Committee is to support the Board of Directors to deliver the Trust's responsibilities for the conduct of public business and the stewardship of funds; to be responsible for providing assurance to the Board that appropriate systems of internal control and risk management are in place covering all corporate and clinical areas of the Trust; and to make recommendations to the Council of Governors on the appointment of external auditors.
- 1.02 The Committee shall seek to ensure that business is conducted in accordance with the law and proper standards; public money is safeguarded and properly accounted for; Financial Statements are prepared in a timely manner and give a true and fair view of the financial position of the Trust for the period in question; services are managed so as to secure economic, efficient and effective use of resources; and that reasonable steps are taken to prevent and detect fraud and other irregularities.

**2.00 MEMBERSHIP AND ATTENDANCE AT MEETINGS**

- 2.01 The membership of the Committee shall be:
- Chair [of the Audit Committee](#): a nominated non-executive Director
  - Two further nominated non-executive Directors
- 2.02 The Trust Chair shall propose which non-executive Directors will be most suitable for nomination as Chair and members of the Committee. The Board shall approve the appointment of the Committee Chair and non-executive members, based on the Trust Chair's recommendations. (The Foundation Trust Code of Governance requires that the Committee should be composed of at least three independent non-executive Directors, at least one of whom has recent and relevant financial experience.)
- 2.03 Those normally in attendance at the Committee meetings shall be:
- The Director of Finance ([in their capacity as](#) the Lead Executive Officer for the Committee)
  - External Auditors
  - Internal Auditors
  - Local Counter Fraud Specialist (as appropriate)
  - Company Secretary

~~Any member of the Board of Directors shall have the right to be in attendance at any meeting of the Committee by prior agreement with the Chair of the Committee.~~

In line with the Audit Committee being a statutory independent Committee of the Board, attendance at the Audit Committee will be by invitation only and by agreement with the Chair of the Committee in advance.

- 2.04 Those who are normally in attendance may exceptionally send a deputy to the meeting, with prior consent of the Chair.
- 2.05 Other Employees of the Trust, including Executives, managers and clinicians may be required to attend at the request of the Chair of the Audit Committee for particular items on the Agenda that relate to areas of risk or operation for which they are responsible.
- 2.06 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.
- 2.07 The Trust Chair shall not be a member of the Committee.
- 2.08 At least once a year the Committee should meet privately with the External Auditors, Internal Auditors and Local Counter Fraud Service. The head of internal audit and representative of external audit have a right of direct access to the chair of the Committee.
- 2.09 The Company Secretary or their nominee shall act as Secretary to the Committee and shall attend to take minutes of the meeting and provide appropriate support to the Chair of the Committee and Committee members.

### **3.00 ROLE AND RESPONSIBILITIES**

#### **AUTHORITY**

- 3.01 The Committee shall have the delegated authority to act on behalf of the Board of Directors in accordance with the Constitution, Standing Orders, Standing Financial Instructions, and Scheme of Delegation. The limit of such delegated authority is restricted to the areas outlined in the Duties of the Committee and subject to the rules on reporting, both as defined below.
- 3.02 The Committee is empowered to investigate any activity within its Terms of Reference, and to seek any information it requires from staff, who are required to co-operate with the Committee in the conduct of its enquiries.
- 3.03 The 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. All such advice should be arranged in consultation with the Company Secretary.

#### **DUTIES**

##### **Governance, Risk Management and Internal Control**

- 3.04 The Committee shall assure itself that the Trust has established and maintains an effective integrated system of governance, risk management and internal controls, across the whole of the Trust's activities (both clinical and non-clinical) that supports the achievement of the Trust's objectives.

- 3.05 In particular, the Committee shall assure itself (either directly or through the work of the Quality and Risk [Safety](#) Committee) of the accuracy, adequacy and effectiveness of:
- All risk and control-related disclosure statements (in particular the Annual Governance Statement and relevant declarations of compliance with the requirements of Monitor and the Care Quality Commission), together with any accompanying statement from the Head of Internal Audit, any 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 and the effectiveness of the management of principal corporate and clinical risks. These will include but will not be limited to: the Board Assurance Framework; the Risk Management Strategy; and the Risk Register along with realistic prioritised action plans and targets to eliminate or minimise risk.
  - The policies and controls for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self-certification.
  - The policies and procedures for all work related to fraud and corruption as set out by NHS Protect
- 3.06 In carrying out this work the Committee will primarily utilise the work of Internal Audit, External Audit, Local Counter Fraud Service (LCFS), and other assurance functions, but will not be limited to these audit and assurance functions.
- 3.07 The Committee will seek assurance from the Quality and Risk [Safety](#) Committee, to the extent that this is reasonable and possible, that the quality and clinical risk elements of the Trust's Board Assurance Framework, Risk Register, Risk Management Strategy and underpinning risk management and clinical governance processes are in place, fully effective and in line with best practice. 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.

### **Internal Audit and Counter Fraud**

- 3.08 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.
- 3.09 The Committee shall also satisfy itself that the organisation has adequate arrangements in place for countering fraud, [bribery and corruption that meet NHSCFA's standards and shall review the outcomes of work in these areas.](#)
- 3.10 This will be achieved by:
- Approval of the appointment of the Internal Auditor.
  - Consideration of the provision of the Internal Audit service, the cost of the audit service and any questions of resignation and dismissal.
  - Reviews 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 and Risk management Strategy.
  - Consideration of the major findings of internal audit work and the response of managers, ensuring that recommendations are followed-up and any lessons are learned within the Trust.
  - Ensuring that the Internal Audit function is adequately resourced and has appropriate standing within the organisation.

- Annual review of the effectiveness of internal audit and of co-ordination between the Internal and External Auditors to optimise audit resources.
- Regular review of resource allocation to the local counter-fraud service (LCFS), progress against the LCFS work plan and ongoing LCFS investigations, and the outcomes, learning and actions resulting from counter fraud work.

The committee will refer any suspicions of fraud, bribery and corruption to the NHSCFA.

## External Audit

- 3.11 The Committee shall support the Council of Governors with their duty to appoint, re-appoint, or remove the external auditor. The Committee shall:
- agree the criteria for appointment or removal with the Council of Governors, and advise on the external audit terms and conditions including fees;
  - report to the Council of Governors annually on the performance of the external auditor;
  - and agree with the Council of Governors a policy on the engagement of the external auditor to provide non-audit services.
- 3.12 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 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 NHS.
  - Discussion with the External Auditors of their local evaluation of audit risks and assessment of the Local Health Economy and associated impact on the audit fee.
  - Reviewing all External Audit reports, ensuring appropriate management responses and monitoring the implementation of responses
  - 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.

## Other Assurance Functions

- 3.13 The Audit Committee shall receive assurance from the Quality and Risk Safety Committee on its review of 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. Care Quality Commission, NHS Litigation Authority Protect, etc), professional bodies with responsibility for the performance of staff or functions (e.g. Royal Colleges, accreditation bodies, etc).
- 3.14 The Committee shall review the work of other Committees within the organisation whose work can provide relevant assurances. This will particularly include the Quality and Risk Safety Committee, the Finance and Investments Committee and any other risk management Committees that may be established. In reviewing the work of the Quality and Risk Safety Committee and issues concerning clinical risk management, the Audit Committee will wish to satisfy itself on the assurance that can be gained from the clinical audit function.
- 3.15 The Committee shall review all decisions made by the Board to suspend Standing Orders or Standing Financial Instructions.

3.16 The Committee shall receive reports at least Quarterly on the work relating to **Cyber Security**.

### **Management**

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

3.18 The Committee may also require specific reports from individual functions within the organisation (e.g. clinical audit) as they may be appropriate to the overall arrangements.

### **Financial Reporting**

3.19 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.

3.20 The Committee shall 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.

3.21 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;
- significant judgements in the preparation of financial statements;
- significant adjustments resulting from the audit;
- letter of representation
- qualitative aspects of financial reporting.

### **Whistleblowing**

3.22 The Audit 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 including ensuring that any such concerns are investigated proportionately and independently.

### **REPORTING AND RELATIONSHIPS**

3.23 The Committee shall be accountable to the Board of Directors of the Trust.

3.24 The Committee shall make an annual report to the Board of Directors to demonstrate the Committee's discharge of its duties and to confirm the fitness for purpose of the Trust's assurance framework, risk management, and governance processes.

3.25 The Committee shall make recommendations to the Board of Directors concerning any issues that require decision or resolution by the Board.

- 3.26 The Committee shall make an annual report to the Council of Governors identifying any matters where it recommends that action or improvement is necessary; and reporting on the performance of the external auditor.
- 3.27 The Committee shall review the minutes and recommendations of the Quality and ~~Risk~~ **Safety** Committee and other Committees as appropriate.
- 3.28 The Committee shall review its own performance, constitution and terms of reference **annually** at ~~least every two years~~ to ensure it is operating at maximum effectiveness. Any proposed changes to the terms of reference should be agreed by the Trust Board.

#### **4.00 CONDUCT OF BUSINESS**

- 4.01 The Committee shall conduct business in accordance with the Standing Orders of the Trust.
- 4.02 The Committee shall be deemed quorate if there are at least two non-executive Directors present. A quorate meeting shall be competent to exercise all or any of the authorities, powers and duties vested in or exercised by the Committee.
- 4.03 The Committee shall meet not less than ~~four~~ **five** times in each financial year. The Chair of the Committee may request an extraordinary meeting if he/she considers one to be necessary. The External Auditor or Head of Internal Audit may request a meeting of the Committee if either or both consider that one is necessary.
- 4.04 At the discretion of the Chair of the Audit Committee, business may exceptionally be transacted either: through a teleconference where an agenda has been issued in advance; or through the signing by two thirds of members of a written resolution sent in advance to members and recorded in the minutes of the next formal meeting.
- 4.05 Agendas and papers should be prepared and circulated five clear days before each meeting.
- 4.06 Minutes of Committee meetings should be formally recorded and distributed to Committee Members, normally within 10 working days of the meetings. Subject to the approval of the Chair of the Committee, the Minutes will be submitted to the Trust Board at its next meeting and may be presented by the Chair. The Chair will draw to the attention of the Board any issues that require disclosure to the full Board, or require executive action.

#### **5.00 STATUS OF THESE TERMS OF REFERENCE**

**Agreed by Audit Committee: 19<sup>th</sup> November 2019**

**Approved by Trust Board: [Date]**

**Next Review: November 2020**