**HFMA *NHS audit committee handbook***

**Appendix A: Example terms of reference**

**NHS (Foundation) Trust**

**Terms of Reference**

1. **Constitution**

The board hereby resolves to establish a committee of the board to be known as the audit (and risk/ risk assurance) 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.

1. **Membership**

The committee shall be appointed by the board from amongst its independent, non-executive directors and shall consist of not less than three members. A quorum shall be two of the three independent members. One of the members will be appointed chair of the committee by the board. The chair of the organisation itself shall not be a member of the committee.

1. **Attendance at meetings**

The chief finance officer and appropriate internal and external audit representatives shall normally attend meetings.

The counter fraud specialist (LCFS) will attend a minimum of two committee meetings a year.

The company secretary may attend meetings.

The accountable (trusts)/ accounting (foundation trusts) officer should be invited to attend meetings and should discuss at least annually with the audit committee the process for assurance that supports the governance statement. They should also attend when the committee considers the draft annual governance statement and the annual report and accounts.

Other executive directors/ managers should be invited to attend, particularly when the committee is discussing areas of risk or operation that are the responsibility of that director/ manager.

Representatives from other organisations (for example, the NHS Counter Fraud Authority (NHSCFA)) and other individuals may be invited to attend on occasion, by invitation.

A nominated person shall be secretary to the committee and shall attend to take minutes of the meeting and provide appropriate support to the chair and committee members.

At least once a year the committee should meet privately with the internal auditors, external auditors and LCFS either separately or together. Additional meetings may be scheduled to discuss specific issues if required.

1. **Access**

The head of internal audit and representative of external audit have a right of direct access to the chair of the committee. This also extends to the local counter fraud specialist, as well as the security management specialist (where they do not report elsewhere)

1. **Frequency of meetings**

The committee must consider the frequency and timing of meetings needed to allow it to discharge all of its responsibilities. A benchmark of four to ﬁve meetings per annum (with a possible additional meeting to specifically review the annual report and accounts) at appropriate times in the reporting and audit cycle is suggested. The chair of the committee, board, accountable/ accounting officer, external auditors or head of internal audit may request an additional meeting if they consider that one is necessary.

To assist in the management of business over the year an annual workplan will be maintained, capturing the main items of business at each scheduled meeting.

1. **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 cooperate 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.

1. **Responsibilities**

The committee’s duties/ responsibilities can be categorised as follows:

**Governance, risk management and internal control**

The committee shall review the adequacy and effectiveness of the system of governance, risk management and internal control, across the whole of the organisation’s activities (clinical and non-clinical), that supports the achievement of the organisation’s objectives.

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

* 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 submission to the board
* the underlying assurance processes that indicate the degree of achievement of the organisation’s 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 and any related reporting and self-certiﬁcations, including the NHS Code of Governance and NHS Provider licence
* the policies and procedures for all work related to counter fraud, bribery and corruption as required by the NHSCFA.

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 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 the audit and assurance functions that report to it.

As part of its integrated approach, the committee will have effective relationships with other key committees (for example, the quality committee, or equivalent) so that it understands processes and linkages. However, these other committees must not usurp the committee’s role.

**Internal audit**

The committee shall ensure that there is an effective internal audit function that meets the *Public sector internal audit standards, 2017* and provides appropriate independent assurance to the committee, accountable/ accounting officer and board. This will be achieved by:

* considering the provision of the internal audit service and the costs involved
* reviewing and approving the annual internal audit 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
* considering the major ﬁndings of internal audit work (and management’s response), and ensuring coordination between the internal and external auditors to optimise the use of audit resources
* ensuring that the internal audit function is adequately resourced and has appropriate standing within the organisation
* monitoring the effectiveness of internal audit and carrying out an annual review.

**External audit**

The committee shall review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process. In particular, the committee will review the work and ﬁndings of the external auditors and consider the implications and management’s responses to their work. This will be achieved by:

* considering the appointment and performance of the external auditors, as far as the rules governing the appointment permit (and make recommendations to the board when appropriate)
* discussing and agreeing with the external auditors, before the audit commences, the nature and scope of the audit as set out in the annual plan
* discussing with the external auditors their evaluation of audit risks and assessment of the organisation and the impact on the audit fee
* reviewing all external audit reports, including the report to those charged with governance (before its submission to the board) and any work undertaken outside the annual audit plan, together with the appropriateness of management responses
* ensuring that there is in place a clear policy for the engagement of external auditors to supply non-audit services.

**Other assurance functions**

The committee shall review the ﬁndings of other signiﬁcant assurance functions, both internal and external to the organisation, where relevant to the governance, risk management and assurance of the organisation.

These may include, but will not be limited to, any reviews by Department of Health and Social Care arm’s length bodies or regulators/ inspectors (for example, the Care Quality Commission, NHS Resolution) and professional bodies with responsibility for the performance of staff or functions (for example, Royal Colleges, accreditation bodies).

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 areas of responsibility. In particular, this will include any committees covering safety/ quality, for which assurance from clinical audit can be assessed, and risk management.

**Counter fraud**

The committee shall satisfy itself that the organisation has adequate arrangements in place for counter fraud, bribery and corruption that meet NHSCFA’s standards and shall review the outcomes of work in these areas.

With regards to the local counter fraud specialist it will review, approve and monitor counter fraud work plans, receiving regular updates on counter fraud activity, monitor the implementation of action plans and discuss NHSCFA quality assessment reports.

**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, compliance reviews or accreditation reports).

**Financial reporting**

The committee shall monitor the integrity of the ﬁnancial statements of the organisation and any formal announcements relating to its 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 the completeness and accuracy of the information provided.

The committee shall review the annual report and ﬁnancial statements before submission to the board, or on behalf of the board where appropriate delegated authority is place, 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, practices and estimation techniques
* unadjusted misstatements in the ﬁnancial statements
* signiﬁcant judgements in preparation of the ﬁnancial statements
* signiﬁcant adjustments resulting from the audit
* letters of representation
* explanations for significant variances.

**System for raising concerns**

The committee shall review the effectiveness of the arrangements in place for allowing staff (and contractors) to raise (in confidence) concerns about possible improprieties in any area of the organisation (financial, clinical, safety or workforce matters) and ensure that any such concerns are investigated proportionately and independently, and in line with the relevant policies.

**Governance regulatory compliance**

The committee shall review the organisation’s reporting on compliance with the *NHS Provider Licence*, *NHS code of governance* and the fit and proper persons test.

The committee shall satisfy itself that the organisation’s policy, systems and processes for the management of conflicts, (including gifts and hospitality and bribery) are effective including receiving reports relating to non-compliance with the policy and procedures relating to conflicts of interest.

1. **Behaviours and conduct**

**Trust values**

Members will be expected to conduct business in line with the trust values and objectives.

Members of, and those attending, the committee shall behave in accordance with the trust’s constitution, standing orders, and standards of business conduct policy.

**Equality and diversity**

Members must demonstrably consider the equality and diversity implications of decisions they make.

1. **Accountability and reporting**

The committee shall report to the board on how it discharges its responsibilities.

The minutes of the committee’s meetings shall be formally recorded by the secretary and available for 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 at least annually on its work in support of the annual governance statement, speciﬁcally commenting on the:

* ﬁtness for purpose of the assurance framework
* completeness and ‘embeddedness’ of risk management in the organisation
* effectiveness of governance arrangements
* appropriateness of the evidence that shows that the organisation is fulfilling regulatory requirements relating to its existence as a functioning business.

This annual report should also describe how the committee has fulfilled its terms of reference and give details of any significant issues that the committee considered in relation to the financial statements and how they were addressed.

An annual committee effectiveness evaluation will be undertaken and reported to the committee and the board.

The audit committee will review these terms of reference, at least annually as part of the annual committee effectiveness review and recommend any changes to the board.

1. **Secretariat and administration**

The committee shall be supported administratively by its secretary. Their duties in this respect will include:

* agreement of agendas with the chair and attendees
* preparation, collation and circulation of papers in good time
* ensuring that those invited to each meeting attend
* taking the minutes and helping the chair to prepare reports to the board
* keeping a record of matters arising and issues to be carried forward
* arranging meetings for the chair: for example, with the internal/ external auditors or local counter fraud specialists
* maintaining records of members’ appointments and renewal dates and so on
* advising the committee on pertinent issues/ areas of interest/ policy developments
* ensuring that action points are taken forward between meetings
* ensuring that committee members receive the development and training they need.

**11. Review**

The committee will review its effectiveness at least annually.

These terms of reference will be reviewed at least annually and more frequently if required. Any proposed amendments to the terms of reference will be submitted to the board for approval.

Date of approval:

Date of review:

**Integrated Care Board**

**Audit Committee**

**Terms of reference[[1]](#footnote-2)**

1. **Constitution**

The audit committee (the committee) is established by the integrated care board (the board or ICB) as a committee of the board in accordance with its Constitution.

These terms of reference (ToR), which must be published on the ICB website, set out the membership, the remit, responsibilities and reporting arrangements of the committee and may only be changed with the approval of the board.

The committee is a non-executive committee of the board and its members, including those who are not members of the board, are bound by the standing orders and other policies of the ICB.

1. **Authority**

The committee is authorised by the board to:

* investigate any activity within its terms of reference
* seek any information it requires within its remit, from any employee or member of the ICB (who are directed to co-operate with any request made by the committee) within its remit as outlined in these terms of reference
* commission any reports it deems necessary to help fulfil its obligations
* obtain legal or other independent professional advice and secure the attendance of advisors with relevant expertise if it considers this is necessary to fulfil its functions. In doing so the committee must follow any procedures put in place by the ICB for obtaining legal or professional advice
* create task and finish sub-groups in order to take forward specific programmes of work as considered necessary by the committee’s members. The committee shall determine the membership and terms of reference of any such task and finish sub-groups in accordance with the ICB’s constitution, Standing Orders and Scheme of Reservation and Delegation (SoRD) but may/ not delegate any decisions to such groups.

For the avoidance of doubt, the committee will comply with, the ICB standing orders, standing financial instructions and the SoRD, other than for the following exceptions:

* add any exceptions agreed by the board.

1. **Purpose**

To contribute to the overall delivery of the ICB objectives by providing oversight and assurance to the board on the adequacy of governance, risk management and internal control processes within the ICB.

The duties of the committee will be driven by the organisation’s objectives and the associated risks. An annual programme of business will be agreed before the start of the financial year; however this will be flexible to new and emerging priorities and risks.

The committee has no executive powers, other than those delegated in the SoRD and specified in these terms of reference.

1. **Membership and attendance**

**Membership**

The committee members shall be appointed by the board in accordance with the ICB Constitution.

The board will appoint no fewer than four members of the committee including two who are independent non-executive members of the board. Other members of the committee need not be members of the board, but they may be.

Neither the chair of the board, nor employees of the ICB will be members of the committee.

Members will possess between them knowledge, skills and experience in: accounting, risk management, internal, external audit; and technical or specialist issues pertinent to the ICB’s business. When determining the membership of the Committee, active consideration will be made to diversity and equality.

**Chair and vice chair**

In accordance with the constitution, the committee will be chaired by an independent non-executive member of the board appointed on account of their specific knowledge skills and experience making them suitable to chair the committee.

The chair of the committee shall be independent and therefore may not chair any other committees. In so far as it is possible, they will not be a member of any other committee.

Committee members may appoint a vice chair who ICB to add any local specifications about who may be vice chair.

The chair will be responsible for agreeing the agenda and ensuring matters discussed meet the objectives as set out in these ToR.

**Attendees**

Only members of the committee have the right to attend committee meetings, however all meetings of the committee will also be attended by the following individuals who are not members of the committee:

* chief finance officer or their nominated deputy
* representatives of both internal and external audit
* individuals who lead on risk management and counter fraud matters
* add other relevant attendees

The chair may ask any or all of those who normally attend, but who are not members, to withdraw to facilitate open and frank discussion of particular matters.

Other individuals may be invited to attend all or part of any meeting as and when appropriate to assist it with its discussions on any particular matter including representatives from the health and wellbeing board(s), secondary and community providers.

The chief executive should be invited to attend the meeting at least annually.

The chair of the ICB may also be invited to attend one meeting each year in order to gain an understanding of the committee’s operations.

**Attendance**

Where an attendee of the committee (who is not a member of the committee) is unable to attend a meeting, a suitable alternative may be agreed with the chair.

**Access**

Regardless of attendance, external audit, internal audit, local counter fraud and security management providers will have full and unrestricted rights of access to the committee.

1. **Meetings quoracy and decisions**

The committee will meet four/five times a year and arrangements and notice for calling meetings are set out in the standing orders. Additional meetings may take place as required.

The board, chair or chief executive may ask the committee to convene further meetings to discuss particular issues on which they want the committee’s advice.

In accordance with the standing orders, the committee may meet virtually when necessary and members attending using electronic means will be counted towards the quorum.

**Quorum**

For a meeting to be quorate a minimum of two independent non-executive members of the board are required, including the chair or vice chair of the committee.

If any member of the committee has been disqualified from participating in an item on the agenda, by reason of a declaration of conflicts of interest, then that individual shall no longer count towards the quorum.

If the quorum has not been reached, then the meeting may proceed if those attending agree, but no decisions may be taken.

**Decision-making and voting**

Decisions will be taken in according with the standing orders. The committee will ordinarily reach conclusions by consensus. When this is not possible the chair may call a vote.

Only members of the committee may vote. Each member is allowed one vote and a majority will be conclusive on any matter.

Where there is a split vote, with no clear majority, the chair of the committee will hold the casting vote.

If a decision is needed which cannot wait for the next scheduled meeting, the chair may conduct business on a ‘virtual’ basis through the use of telephone, email or other electronic communication.

1. **Responsibilities of the committee**

The committee’s duties can be categorised as follows.

**Integrated governance, risk management and internal control**

To review the adequacy and effectiveness of the system of integrated governance, risk management and internal control across the whole of the ICB’s activities that support the achievement of its objectives, and to highlight any areas of weakness to the board.

To ensure that financial systems and governance are established which facilitate compliance with the Department of Health and Social Care’s (DHSC) *Group accounting manual*.

To review the adequacy and effectiveness of the assurance processes that indicate the degree of achievement of the ICB’s objectives, the effectiveness of the management of principal risks.

To have oversight of system risks where they relate to the achievement of the ICB’s objectives.

To ensure consistency that the ICB acts consistently with the principles and guidance established in HM Treasury’s *Managing public money*.

To seek reports and assurance from directors and managers as appropriate, concentrating on the systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.

To identify opportunities to improve governance, risk management and internal control processes across the ICB.

**Internal audit**

To ensure that there is an effective internal audit function that meets the *Public sector internal audit standards* and provides appropriate independent assurance to the board. This will be achieved by:

* considering the provision of the internal audit service and the costs involved
* reviewing and approving the annual internal audit 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
* considering the major ﬁndings of internal audit work, including the *Head of Internal Audit Opinion*, (and management’s response), and ensure coordination between the internal and external auditors to optimise the use of audit resources;
* ensuring that the internal audit function is adequately resourced and has appropriate standing within the organisation; and
* monitoring the effectiveness of internal audit and carrying out an annual review.

**External audit**

To review and monitor the external auditor’s independence and objectivity and the effectiveness of the audit process. In particular, the committee will review the work and ﬁndings of the external auditors and consider the implications and management’s responses to their work. This will be achieved by:

* considering the appointment and performance of the external auditors, as far as the rules governing the appointment permit
* discussing and agreeing with the external auditors, before the audit commences, the nature and scope of the audit as set out in the annual plan
* discussing with the external auditors their evaluation of audit risks and assessment of the organisation and the impact on the audit fee
* reviewing all external audit reports, including to those charged with governance (before its submission to the board) and any work undertaken outside the annual audit plan, together with the appropriateness of management responses.

**Other assurance functions**

To review the findings of assurance functions in the ICB, and to consider the implications for the governance of the ICB.

To review the work of other committees in the ICB, whose work can provide relevant assurance to the committee’s own areas of responsibility.

To review the assurance processes in place in relation to financial performance across the ICB including the completeness and accuracy of information provided.

To review the findings of external bodies and consider the implications for governance of the ICB. These will include, but will not be limited to:

* reviews and reports issued by arm’s length bodies or regulators and inspectors including the National Audit Office, Select Committees, NHS Resolution, Care Quality Commission
* reviews and reports issued by professional bodies with responsibility for the performance of staff or functions (such as the Royal Colleges and accreditation bodies).

**Counter fraud**

To assure itself that the ICB has adequate arrangements in place for counter fraud, bribery and corruption (including cyber security) that meet NHS Counter Fraud Authority’s (NHSCFA) standards and shall review the outcomes of work in these areas.

To review, approve and monitor counter fraud work plans, receiving regular updates on counter fraud activity, monitor the implementation of action plans, provide direct access and liaison with those responsible for counter fraud, review annual reports on counter fraud, and discuss NHSCFA quality assessment reports.

To ensure that the counter fraud service provides appropriate progress reports and that these are scrutinised and challenged where appropriate.

To be responsible for ensuring that the counter fraud service submits an annual report and self-review assessment, outlining key work undertaken during each financial year to meet the NHS standards for commissioners. .

To report concerns of suspected fraud, bribery and corruption to the NHSCFA.

**Freedom to Speak Up**

To review the adequacy and security of the ICB’s arrangements for its employees, contractors and external parties to raise concerns, in confidence, in relation to financial, clinical management, or other matters. The committee shall ensure that these arrangements allow proportionate and independent investigation of such matters and appropriate follow up action.

**Information Governance (IG)**

To receive regular updates on IG compliance (including uptake & completion of data security training), data breaches and any related issues and risks.

To review the annual senior information risk owner (SIRO) report, the submission for the *Data security and protection toolkit* and relevant reports and action plans.

To receive reports on audits to assess information and IT security arrangements, including the annual *Data security and protection toolkit* audit.

To provide assurance to the board that there is an effective framework in place for the management of risks associated with information governance.

**Financial reporting**

To monitor the integrity of the financial statements of the ICB and any formal announcements relating to its financial performance.

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

To review the annual report and financial statements (including accounting policies) before submission to the board focusing particularly on:

* the wording in the governance statement and other disclosures relevant to the ToRs of the committee
* changes in accounting policies, practices and estimation techniques
* unadjusted mis-statements in the financial statements
* significant judgements and estimates made in preparing of the financial statements
* significant adjustments resulting from the audit
* letter of representation
* qualitative aspects of financial reporting.

**Conflicts of Interest**

The chair of the committee will be the nominated conflicts of interest guardian.

The committee shall satisfy itself that the ICB’s policy, systems and processes for the management of conflicts, (including gifts and hospitality and bribery) are effective including receiving reports relating to non-compliance with the ICB policy and procedures relating to conflicts of interest.

**Management**

To request and review reports 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 ICB as they may be appropriate to the overall arrangements.

To receive reports of breaches of policy and normal procedure or proceedings, including such as suspensions of the ICB’s standing orders, in order provide assurance in relation to the appropriateness of decisions and to derive future learning.

**Communication**

To co-ordinate and manage communications on governance, risk management and internal control with stakeholders internally and externally.

To develop an approach with other committees, including the integrated care partnership, to ensure the relationship between them is understood.

1. **Behaviours and conduct**

**ICB values**

Members will be expected to conduct business in line with the ICB values and objectives.

Members of, and those attending, the committee shall behave in accordance with the ICB’s constitution, standing orders, and standards of business conduct policy.

**Equality and diversity**

Members must demonstrably consider the equality and diversity implications of decisions they make.

1. **Accountability and reporting**

The committee is accountable to the board and shall report to the board on how it discharges its responsibilities.

The minutes of the meetings shall be formally recorded by the secretary and submitted to the board in accordance with the *Standing orders*.

The chair will provide assurance reports to the board at each meeting and shall draw to the attention of the board any issues that require disclosure to the board or require action.

The committee will provide the board with an annual report, timed to support finalisation of the accounts and the governance statement. The report will summarise its conclusions from the work it has done during the year 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 that shows the organisation is fulfilling its regulatory requirements
* the robustness of the processes behind the quality accounts

1. **Secretariat and administration**

The committee shall be supported with a secretariat function which will include ensuring that:

* the agenda and papers are prepared and distributed in accordance with the standing orders having been agreed by the chair with the support of the relevant executive lead
* attendance of those invited to each meeting is monitored and highlighting to the chair those that do not meet the minimum requirements
* records of members’ appointments and renewal dates and the board is prompted to renew membership and identify new members where necessary
* good quality minutes are taken in accordance with the standing orders and agreed with the chair and that a record of matters arising, action points and issues to be carried forward are kept;
* The chair is supported to prepare and deliver reports to the board
* The committee is updated on pertinent issues/ areas of interest/ policy developments
* action points are taken forward between meetings and progress against those actions is monitored

1. **Review**

The committee will review its effectiveness at least annually.

These ToRs will be reviewed at least annually and more frequently if required. Any proposed amendments to the terms of reference will be submitted to the board for approval.

Date of approval:

Date of review:

1. NHS England, [*Model audit and remuneration terms of reference*](https://future.nhs.uk/connect.ti/ICSGuidance/viewdocument?docId=116189765), November 2021 (FutureNHS login required) [↑](#footnote-ref-2)