

**NLG(18)312**

DATE OF MEETING	28 <sup>th</sup> August 2018
REPORT FOR	Trust Board of Directors – Public
REPORT FROM	Nick Mapstone, Chair of Audit, Risk & Governance Committee / NED
CONTACT OFFICER	Marcus Hassall, Director of Finance
SUBJECT	Audit, Risk & Governance Committee Membership and Terms of Reference
BACKGROUND DOCUMENT (IF ANY)	HFMA NHS Audit Committee Handbook 2018
PURPOSE OF THE REPORT:	For Approval
EXECUTIVE SUMMARY (PLEASE INCLUDE: A SUMMARY OF THE REPORT, KEY POINTS & / OR ANY RISKS WHICH NEED TO BE BROUGHT TO THE ATTENTION OF THE TRUST BOARD AND ANY MITIGATING ACTIONS, WHERE APPROPRIATE)	<p>The existing ARG Committee membership and Terms of Reference document has been revised to include the four new items from the latest HFMA NHS Audit Committee Handbook (2018) – refer to section 7.5.1 of the attached paper.</p> <p>The new ARG Committee Chair has also reviewed the existing ToR and proposed a number of minor amendments.</p> <p>The proposed revisions to the ToR were considered and agreed at the meeting of the ARG Committee on the 26<sup>th</sup> July 2018.</p> <p>All changes are tracked for ease of reference.</p>
TRUST BOARD ACTION REQUIRED	The Board is asked to approve the revised Membership and Terms of Reference for the Audit, Risk and Governance Committee.

## Directorate of Finance

# TRUST BOARD AUDIT, RISK AND GOVERNANCE COMMITTEE

## Membership and Terms of Reference

Reference:	DCT122
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Northern Lincolnshire and Goole NHS Foundation Trust actively seeks to promote equality of opportunity. The Trust seeks to ensure that no employee, service user, or member of the public is unlawfully discriminated against for any reason, including the "protected characteristics" as defined in the Equality Act 2010. These principles will be expected to be upheld by all who act on behalf of the Trust, with respect to all aspects of Equality.

## 1.0 Constitution

- 1.1 The Audit, Risk and Governance Committee (the Committee) is a standing committee formally established by the Trust Board (the Board).
- 1.2 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.
- 1.3 These terms of reference have been produced in line with the guidance contained within the Healthcare Financial Management Association (HFMA) NHS Audit Committee Handbook (2018~~4~~).

## 2.0 Membership and Quorum

- 2.1 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. One of the members shall have recent relevant financial experience.
- 2.2 A quorum shall be two of the three members.
- 2.3 One of the members will be appointed Chair of the Committee by the Board.
- ~~2.4 Committee members must attend at least 50% of meetings.~~
- ~~2.5~~2.4 The Chair of the Trust shall not be a member of the Committee.

## 3.0 Attendance at meetings

- 3.1 The Director of Finance and ~~appropriate~~ internal and external audit representatives shall normally attend meetings.
- 3.2 The Trust Secretary shall normally attend meetings.
- 3.3 The Chief Executive should be invited to attend and should discuss at least annually with the Audit, Risk and Governance Committee the process for assurance that supports the Annual Governance Statement. The Chief Executive should also attend when the Committee considers the draft annual governance statement and the annual report and accounts.
- 3.4 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.
- 3.5 The Local Counter Fraud Specialist will attend to report upon and discuss counter fraud matters.
- 3.6 Representatives from other organisations (e.g. NHS Counter Fraud Authority (NHS CFA)) and other individuals (e.g. Local Security Management Specialist) may be invited to attend on occasion.
- 3.7 The Secretary to the Committee shall attend to take minutes of the meeting and provide appropriate support to the Chair and Committee members.

3.8 At least once a year, members of the Committee ~~should~~ shall meet privately with the External and Internal Auditors. Other meetings will take place at the request of members or auditors.

#### 4.0 Access

The Head of Internal Audit, representatives of External Audit and the Local Counter Fraud Specialist have a right of direct access to the Chair of the Committee.

#### 5.0 Frequency of Meetings

5.1 The Committee should meet at least five times per year at appropriate times in the audit cycle to allow it to discharge all of its responsibilities in line with its annual workplan. Additional meetings, including any focus working group, may be called as required. The Committee will review this annually ~~to ensure it remains appropriate.~~

5.2 The Accountable Officer, External Auditors and/or Head of Internal Audit may request a meeting if they consider that one is necessary.

#### 6.0 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.

6.2 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.

#### 7.0 Responsibilities

The Committee supports the ~~governing body~~ Board by:

- Assessing the Trust's overarching framework of governance, risk and control
- Obtaining assurances about the design and operation of internal controls ~~and whether they are working as they should~~
- Seeking assurances about the underlying data (upon which assurances are based) to ~~ensure~~ assess their ~~that it is robust, reliable~~ reliability and ~~accuracy~~
- Challenging poor and/or unreliable sources of assurance
- Challenging relevant managers when controls are not working or data ~~is~~ are unreliable

The duties/responsibilities of the Committee can be categorised as the follows:

## 7.1 Integrated 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), that supports the achievement of the organisation's objectives.

7.1.2 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 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 and related reporting and self-certifications
- The policies and procedures for all work related to counter fraud and corruption as required by the NHS [Counter Fraud Authority](#)

7.1.3 In carrying out this work the Committee ~~use~~ ~~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.

7.1.4 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.

7.1.5 As part of its integrated approach, the Committee will have effective relationships with other Trust Board Sub Committees (which may include reciprocal membership) to ~~ensure that there is~~ ~~provide~~ an understanding of processes and linkages. This ~~may will~~ include the exchange of ~~agendas~~ ~~Chair's logs~~ and meeting minutes. ~~However, the other Trust Board Sub Committees must not usurp the Committee's role.~~

## 7.2 Internal Audit

The Committee shall ~~ensure~~ ~~assure itself~~ that there is an effective internal audit function that meets ~~the latest~~ Public Sector Internal Audit Standards ([PSIAS](#)) and provides ~~appropriate~~ independent assurance to the Committee, Chief Executive and Board. This will be achieved by:

- Considering the provision of the internal audit service and the costs involved
- Reviewing and approving the internal audit strategy, the annual internal audit plan and more detailed programme of work, ~~ensuring~~ that ~~this~~ is consistent with the audit needs of the ~~organisation~~ ~~Trust~~ as identified in the Assurance Framework

- Considering the major findings of internal audit work (and management's response), and ensuring co-ordination between the internal and external auditors to optimise the use of audit resources
- Monitoring the implementation of agreed internal audit recommendations in line with agreed timescales, and where concerns exist in relation to the lack of implementation in a particular area the Committee can request the relevant operational manager to attend a meeting and give explanation
- Ensuring that the internal audit function is adequately resourced and has appropriate standing within the organisation
- Reviewing the Internal Auditor's annual report before its submission to the Board;
- Monitoring the effectiveness of internal audit and carrying out an annual review, and obtaining independent assurance that Internal Audit complies with PSIAS

### 7.3 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:

- Assisting and advising the Council of Governors in their appointment of the External Auditors (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, agreement of the annual audit letter before 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~~Establishing a clear policy for the engagement of external auditors to supply non-audit services

### 7.4 Financial Reporting

**7.4.1** The Committee shall monitor the integrity of the financial statements of the Trust and any formal announcements relating to its financial performance.

**7.4.2** 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.

**7.4.3** 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, practices and estimation techniques
- Unadjusted mis-statements 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

## 7.5 Risk Management

7.5.1 The Committee shall request and review reports and assurance from directors and managers as to the effectiveness of arrangements to identify and monitor risk. This will include:

- Inviting the Trust's IT team to explain the organisations cyber security arrangements, in order to provide assurance to the Board that the organisation is properly managing its cyber risk and has appropriate risk mitigation strategies
- Reviewing arrangements for new mergers and acquisitions, in order to seek assurance on processes in place to identify significant risks, risk owners and subsequent management of such risks
- Overseeing actions plans relating to regulatory requirements in terms of the Single Oversight Framework and Use of Resources
- Providing the Board with assurance over developing partnership arrangements (e.g. accountable care organisations) and mitigation of risks which may arise at the borders between such organisations

7.5.2 The Board will however retain the responsibility for routinely reviewing specific risks.

## 7.6 Counter Fraud and Security

7.6.1 The Committee shall satisfy itself that the organisation has adequate arrangements in place for counter fraud that meet the NHS CFA's standards and shall review the outcomes of work in these areas. The Committee will-shall receive the annual report and annual work plan from the Local Counter Fraud Specialist, and shall also receive regular progress reports on counter fraud activities.

7.6.2 The Committee will-shall also receive and review the annual report and the annual work plan from the Local Security Management Specialist. It shall receive other security activity reports as appropriate.

## 7.7 Management

7.7.1 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.

7.7.2 The Committee may also request specific reports from individual functions within the organisation (e.g. clinical audit).

## 7.8 Other assurance functions

7.8.1 The Committee shall review the findings of other significant assurance functions, both internal and external to the organisation, and consider the implications for the governance of the organisation.

7.8.2 These will include, but not be limited to, any reviews by Department of Health arm's length bodies or regulators/inspectors (e.g. the Care Quality Commission, [NHS Improvement](#), [NHS Resolution](#)~~Litigation Authority~~, etc) and professional bodies with responsibility for the performance of staff or functions (e.g. Royal Colleges, accreditation bodies, etc).

7.8.3 In addition, the Committee will review the work of other committees within the Trust, whose work can provide relevant assurance to the Committee's own areas of responsibility. In particular this will include any clinical governance, risk management or quality committees that are established. The Committee ~~will~~ shall receive the minutes of the following Board sub-committees for information:

- Finance and Performance Committee
- Quality and Safety Committee

7.8.4 In reviewing the work of ~~a clinical governance~~ the Quality and Safety ~~e~~ Committee, and issues around clinical risk management, the Committee will wish to satisfy itself on the assurance that can be gained from the clinical audit function.

7.8.5 The Committee will review Standing Financial Instructions, Scheme of Delegation and those elements of the Trust Constitution (Standing Orders) that provide assurances on the internal management of procurement and financial matters. It will also review the Trust's Standards of Business Conduct Policy.

## 8.0 Reporting

8.1 Minutes of each meeting shall be submitted to the next meeting for formal approval and signature by the Chair as a true record of that meeting. A Chair's log and the approved minutes will be submitted to the next meeting of the Board.

8.2 The Chair shall draw to the attention of the Board (via a highlight report) any issues that require disclosure to the Board, or require executive action.

8.3 The Committee ~~will~~ shall 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, the completeness and 'embeddedness' of risk management in the organisation, the integration of governance arrangements, the appropriateness of the evidence that shows the organisations is fulfilling regulatory requirements relating to its existence as a functioning business and the robustness of the processes behind the quality accounts.



8.4 The 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. The report will also outline its workplan for the coming year.

8.5 The Committee's annual report and workplan will also be submitted to the Council of Governors for information.

## 9.0 Whistleblowing / Freedom to Speak Up Guardian

9.1 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 ensures that any such concerns are investigated proportionately and independently.

9.2 The Trust's Freedom to Speak Up Guardian, or ~~their~~ his or her nominated deputy, ~~will~~ shall attend the Committee at least annually to provide assurance on the design and operation of the function~~an update on the activities and success of the role.~~

## 10.0 Administrative Support

10.1 The agenda for the Committee ~~will~~ shall be ~~agreed approved by between~~ the Chair of the committee and the Director of Finance (or his or her nominated deputy).

10.2 Secretarial support (including distribution of agenda and papers to the Committee and noting of apologies) will be arranged by the Director of Finance (or his or her nominated deputy).

10.3 Agenda papers will be circulated to all members of the Committee no less than five working days prior to each meeting. Late papers may only be circulated, or tabled at the meeting, with the prior approval of the Chair.

## 11.0 Review

11.1 The Committee will review its Terms of Reference annually, or as necessary in the intervening period, to ensure that they remain fit for purpose and best facilitate the discharge of its duties. It shall recommend any changes to the Trust Board for approval.

11.2 The Committee will carry out an annual self-assessment (Appendix A) that is based on the good practice guide found in the HFMA's NHS Audit Committee Handbook.

## 12.0 Equality Statement

12.1 Northern Lincolnshire and Goole NHS Foundation Trust aims to design and provide services, implement policies and make decisions that meet the diverse needs of our patients and their carers, the general population we serve and our workforce, ensuring that none are placed at a disadvantage.

12.2 We therefore strive to ensure that in both employment and service provision no individual is discriminated against or treated less favourably by reason of age, disability, gender, pregnancy or maternity, marital status or civil partnership, race, religion or

~~belief, sexual orientation or transgender~~ (the protected characteristics listed in the Equality Act (2010)).

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Directorate of Governance & Assurance, NL&G NHS Foundation Trust.**

## Appendix A

## HFMA NHS Audit Committee Handbook, 2018 – Extract

This checklist is designed to elicit a simple yes or no answer to each question. Where 'no' answers have been given, the issues should be debated to determine if any further action is needed.

Area/ Question	Yes	No	Comments/Action
<b>Composition, establishment and duties</b>			
Does the audit committee have written terms of reference and have they been approved by the governing body?			
Are the terms of reference reviewed annually?			
Has the committee formally considered how it integrates with other committees that are reviewing risk?			
Are committee members independent of the management team?			
Are the outcomes of each meeting and any internal control issues reported to the next governing body meeting?			
Does the committee prepare an annual report on its work and performance for the governing body?			
Has the committee established a plan of matters to be dealt with across the year?			
Are committee papers distributed in sufficient time for members to give them due consideration?			
Has the committee been quorate for each meeting this year?			
<b>Internal control and risk management</b>			
Has the committee reviewed the effectiveness of the organisation's assurance framework?			
Does the committee receive and review			

Area/ Question	Yes	No	Comments/Action
the evidence required to demonstrate compliance with regulatory requirements - for example, as set by the Care Quality Commission?			
Has the committee reviewed the accuracy of the draft annual governance statement?			
Has the committee reviewed key data against the data quality dimensions?			
<b>Annual report and accounts and disclosure statements</b>			
Does the committee receive and review a draft of the organisation's annual report and accounts?			
Does the committee specifically review: <ul style="list-style-type: none"> <li>• The going concern assessment</li> <li>• Changes in accounting policies</li> <li>• Changes in accounting practice due to changes in accounting standards</li> <li>• Changes in estimation techniques</li> <li>• Significant judgements made in preparing the accounts</li> <li>• Significant adjustments resulting from the audit</li> <li>• Explanations for any significant variances?</li> </ul>			
Is a committee meeting scheduled to discuss any proposed adjustments to the accounts and audit issues?			
Does the committee ensure it receives explanations for any unadjusted errors in the accounts found by the external auditors?			
<b>Internal audit</b>			
Is there a formal 'charter' or terms of reference, defining internal audit's objectives and responsibilities?			
Does the committee review and approve the internal audit plan, and any changes to			

Area/ Question	Yes	No	Comments/Action
the plan?			
Is the committee confident that the audit plan is derived from a clear risk assessment process?			
Does the committee receive periodic progress reports from the head of internal audit?			
Does the committee effectively monitor the implementation of management actions arising from internal audit reports?			
Does the head of internal audit have a right of access to the committee and its chair at any time?			
Is the committee confident that internal audit is free of any scope restrictions, or operational responsibilities?			
Has the committee evaluated whether internal audit complies with the <i>Public Sector Internal Audit Standards</i> ?			
Does the committee receive and review the head of internal audit's annual opinion?			
<b>External audit</b>			
Do the external auditors present their audit plan to the committee for agreement and approval?			
Does the committee review the external auditor's ISA 260 report (the report to those charged with governance)?			
Does the committee review the external auditor's value for money conclusion?			
Does the committee review the external auditor's opinion on the quality account when necessary?			
<b>[Note: this question is not relevant for CCGs]</b>			

Area/ Question	Yes	No	Comments/Action
Does the committee hold periodic private discussions with the external auditors?			
Does the committee assess the performance of external audit?			
Does the committee require assurance from external audit about its policies for ensuring independence?			
Has the committee approved a policy to govern the value and nature of non-audit work carried out by the external auditors?			
<b>Clinical audit</b> [Note: this section is only relevant for providers]			
If the committee is NOT responsible for monitoring clinical audit, does it receive appropriate assurance from the relevant committee?			
If the committee is responsible for monitoring clinical audit has it: <ul style="list-style-type: none"> <li>Reviewed an annual clinical audit plan?</li> <li>Received regular progress reports?</li> <li>Monitored the implementation of management actions?</li> <li>Received a report over the quality assurance processes covered by clinical audit activity?</li> </ul>			
<b>Counter fraud</b>			
Does the committee review and approve the counter fraud work plans, and any changes to the plans?			
Is the committee satisfied that the work plan is derived an appropriate risk assessment and that coverage is adequate?			
Does the audit committee receive periodic reports about counter fraud activity?			

Area/ Question	Yes	No	Comments/Action
Does the committee effectively monitor the implementation of management actions arising from counter fraud reports?			
Do those working on counter fraud activity have a right of direct access to the committee and its chair?			
Does the committee receive and review an annual report on counter fraud activity?			
Does the committee receive and discuss reports arising from quality inspections by NHSCFA?			