Title | Audit Committee Chairman’s Report  
| Including Annual Report 2016/17

Status | For discussion

History | The Audit Committee provides a regular report to the Board.  
The Audit Committee’s Annual Report 2016/17 summarises the activities of the Trust’s Audit Committee for the financial year 2016/17, setting out how it has met its terms of reference and key priorities.

Board Lead | Mrs Anne Tutt, Committee Chairman

| Key purpose | Strategy | Assurance | Policy | Performance |
Executive Summary

1. The Audit Committee is a sub-committee of the Trust Board, and as such provides a regular report to the Board on the main issues raised and discussed at its meetings. This regular report is provided at Section 1.

2. The NHS Audit Committee Handbook advises that an Audit Committee, in line with best practice in other sectors, should prepare a report to the Board that sets out how the Committee has met its Terms of Reference, and this is provided at Section 2.

3. This Annual Report summarises the activities of the Trust’s Audit Committee (the Committee) for the financial year 2016/17 setting out how it has met its Terms of Reference and key priorities.

Recommendation

The Board is asked to:

- Note the regular report to the Board from its meeting held on 24 May 2017 (Section 1);
  and
- Review and approve the Audit Committee Annual Report 2016/17(Section 2), and formally approve the revised draft Terms of Reference.
A. Introduction

The Audit Committee last met on 24 May 2017. The main issues raised and discussed at the meeting are set out below.

B. Significant issues of interest to the Board

1. The Committee's primary focus was to review and make a recommendation to the Trust Board on whether to adopt the Annual Accounts for 2016/17. To that end, documentation considered by the Committee included the following:

   - The Head of Internal Audit’s opinion that significant with minor improvements assurance could be given on the overall adequacy, effectiveness of the Trust’s framework governance, risk management and control;
   - Update on Internal Audit recommendations;
   - External Audit Results Report [Ernst & Young];
   - Annual Audit Letter for the year ended 31 March 2017;
   - Audit Committee Annual Report 2016/17
   - Report on the validity of the ‘going concern’ assumption; and
   - Annual Accounts 2016/17.

2. The Committee also specifically considered the Internal Audit Report on Divisional Financial Management, which formed part of the evidence upon which the overall Head of Internal Audit opinion was based. It was noted that management was currently considering the response to the recommendations outlined within the report, and the Committee urged that the issues identified be addressed a matter of urgency. The finalised management response will be submitted for consideration at the next meeting of the Committee in September 2017.

3. The Committee noted that the Audit Results Report indicated that, subject to satisfactory completion of outstanding issues as stipulated, Ernst and Young expected to issue an unqualified statement that in its opinion the Trust’s financial statements:

   - gave a true and fair view of the state of the Trust’s affairs as at 31 March 2017 and of its income and expenditure and cash flows for the year then ended; and

4. The Committee further noted that, in relation to the requirement to consider whether the Trust had put in place ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources (“value for money”), it was confirmed that the external auditors planned to issue an unqualified opinion that concluded that they were satisfied on the basis of their work that, in all significant respects, the Trust had put in place such ‘proper arrangements’ for the year ended 31 March 2017.

   ('Proper arrangements' are defined by statutory guidance issued by the National Audit Office and comprise the arrangements to take informed decisions, deploy resources in a sustainable manner, and work with partners and other third parties).
5. The Committee’s attention was drawn to some weaknesses identified in internal control, outlined as follows:

i. In relation to exit packages, there had been insufficient evidence of one of the exit packages tested having gone through the Remuneration Committee, which it was noted had been raised as an issue in previous years;

ii. In relation to the PPE Fixed Asset Register [FAR], the fact that recent external valuation figures had not been produced in a componentised format meant that the valuations were apportioned to the asset based on the original proportions, rather than specific to the buildings (which were shown as componentised assets on the Register). This approach was considered reasonable given the information available, and the external auditors noted that it would not affect the value of the assets in the Statement of Accounts. However, the external auditors did consider that it was not ideal that the external valuation figures had not been produced in a componentised format, as this may affect the accuracy of the revaluation reserve and impairment figures.

iii. In relation to the capitalisation of staff costs, some inaccuracies had been found in the detail of working papers stipulating the individuals allocated to the project. Whilst the value attributable to the inaccuracy was not material, the Trust should ensure that records were accurately maintained.

The Chief Finance Officer has been asked to provide a written note to the next meeting of the Committee, to confirm actions taken to address each of the weaknesses identified.

6. The Committee considered and accepted the validity of the going concern assumption on which the accounts had been prepared, noting that the Treasury Financial Reporting Manual [FReM] set out the following interpretation of the going concern for the public sector context:

“For non-trading entities, the anticipated continuation of the provision of a service in the future, as evidenced by inclusion of financial provision for that service in published documents, is normally sufficient evidence of going concern…”

7. The Committee recommended the Annual Accounts 2016/17 for adoption by the Trust Board at its meeting held later in the day on 24 May 2017.

8. The Committee also considered the draft Annual Report 2016/17 including the Annual Governance Statement and OUH Quality Account 2016/17, and agreed a mechanism for final approval, subject to which authority was delegated for submission of the Annual Report (incorporating the Annual Accounts) 2016/17 on 25 May 2017.

C. Key Risks Discussed

The following key risks were discussed:

12. The Committee noted the importance of partnership working to the establishment of the ‘proper arrangements’ required to secure economy, efficiency and effectiveness on its use of resources (“value for money”), and suggested that a deep dive review should
be undertaken into the potential risks associated with the resilience of the Trust’s partners in the Oxfordshire health economy.

13. The Committee received a verbal report from the Chief Information and Digital Officer on the recent global cyber-attack, and the risks which this had highlighted. While it was confirmed that none of the Trust’s networks had been compromised in any way during the cyber-attack, a review had been initiated following the event, to identify any lessons learnt, and the outcome of that review will be shared with the Committee.

D. Key decisions taken

The following key decisions were made:

14. Having considered all the information relevant to preparation of the Trust’s Annual Accounts, the Committee recommended the Annual Accounts 2016/17 for formal adoption by the Trust Board.

15. Subject to an agreed mechanism for final approval, the Committee delegated authority to approve and submit the final version of the Annual Report 2016/17 including Annual Governance Statement and OUH Quality Account 2016/17.

16. The Committee formally approved the letter of representations of management to be submitted under joint signature of the Chief Finance Officer, and the Chairman of the Audit Committee.

E. Agreed Actions

The Committee agreed the following actions:

15. That the Chief Finance Officer be asked to re-inforce the Committee’s concerns regarding implementation of Internal Audit recommendations, progress in which should continue to be monitored by the Trust Management Executive.

16. That the finalised management response to the Internal Audit Report on Divisional Financial Management be reported to the next meeting of the Committee in September 2017.

17. That the Chief Finance Officer provide a written note to the next meeting of the Committee, to confirm actions taken to address each of the weaknesses identified in internal control.

18. That a deep dive review be undertaken into the potential risks associated with the resilience of the Trust's partners in the Oxfordshire health economy.

19. That the Chief Finance Officer ensure that cash forecasts were monitored closely.

20. That the Chief Information and Digital Officer undertake a review to understand the reasons why so many changes had remained to be incorporated in the Annual Report 2016/17 at a relatively late stage, and report on the outcome of that review to the next meeting of the Committee.

21. That the Chief Information and Digital Officer share with the Committee the outcome of the review initiated following the recent global cyber-attack.
F. Matters deferred for future consideration

22. No matters were deferred

G. Assurance required from/actions required by other Board sub-committees

23. No assurance or action was required by other Board sub-committees on this occasion.

H. Matters to be referred to the Trust Board

24. The Annual Accounts 2016/17 were submitted for formal adoption by the Trust Board at its meeting held later in the day on 24 May 2017.

25. The Committee referred to the Trust Board the question of whether the Board may wish to seek stronger assurance from its sub-committees in relation to the establishment of the ‘proper arrangements’ to secure economy, efficiency and effectiveness on its use of resources (“value for money”).

Recommendation

26. The Trust Board is asked to note the contents of this paper.

Anne Tutt
Audit Committee Chairman

July 2017
Section 2: Audit Committee Annual Report 2016/17

1. Background

1.1. The NHS Audit Committee Handbook advises that an Audit Committee, in line with best practice in other sectors, should prepare a report to the Board that sets out how the Committee has met its Terms of Reference.

1.2. This Annual Report summarises the activities of the Trust’s Audit Committee (the Committee) for the financial year 2016/17 setting out how it has met its Terms of Reference and key priorities.

1.3. The purpose of the Committee is laid down in its Terms of Reference. In summary, it oversees the establishment and maintenance of an effective system of internal control throughout the organisation. It ensures that there are effective internal audit arrangements in place, reviews the work and findings of External Audit, reviews the Trust’s annual statutory accounts before they are presented to the Trust Board and maintains oversight of the Trust’s Counter Fraud arrangements.

2. Scope of Review

2.1. The review undertaken by the Deputy Director of Assurance has focused on a review of the papers presented to the Audit Committee in comparison to the agreed Terms of Reference and the Cycle of Business. The review was broken down into the following subsections:

- Responsibilities;
- Membership and attendance record;
- Reporting arrangements;
- Cycle of business.

Responsibilities

2.2. During 2016/17, the Committee has delivered the key responsibilities as set out in the Terms of Reference. Compliance with a number of the key responsibilities is evidenced by the following actions:

- Regular review of the Board Assurance Framework and Corporate Risk Register, with appropriate challenge to the proposed controls and risk scoring;
- Review of the draft Annual Governance Statement;
- Received reports on progress against local counter fraud, internal and external audit plans and issues by exception;
- Agreed the external audit annual fee and work plan;
- Agreed the internal audit and local counter fraud annual work plans;
- Review of the draft annual accounts and recommended them for approval to the Trust Board;
- Reviewed, on behalf of the Trust Board, changes to the Trust’s Standing orders, Standing Financial Instructions, Scheme of Reservation and Delegation;
- Reviewed specific Internal Audit Reports for those areas identified with limited assurance, with the relevant Executive Director present;
• Reviewed Clinical Audit arrangements and progress on clinical guidelines audit recommendations.

• Reviewed the effectiveness of Internal Audit, External Audit and the Local Counter Fraud Service.

• Continued to maintain a focus of deep dive reviews considering risks in relation to contract monitoring, contracting and other financial risk.

• Undertook a tendering exercise for the Internal Audit and Local Counter Fraud Services with recommendations made to the Board.

Membership and Attendance Record

2.3. During 2016/17, the Committee met five times with attendance recorded in the table below. This demonstrates that there was good attendance record and all meetings were quorate.

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<td>Chair – Non-Executive Director (AT)</td>
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<td>Vice Chair - Non-Executive Director (CG)</td>
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<td>Non-Executive Director (AC)</td>
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2.4. The Trust’s internal auditors and external auditors were in attendance at every meeting. In addition the internal and external auditors met privately with the members throughout the year and the Chair of the committee met with the Internal Auditors before each meeting.

Reporting Requirements

2.5. The Committee reported to the Board after each meeting during the year. Reports included a description of the business conducted, risks identified and issues for escalation.

2.6. The reports from the Committee effectively covered the key points of discussion at each meeting. This included highlights of the results of the Internal Audit reports received at each meeting, providing more details in relation to those that were of limited assurance.

2.7. The reports consistently identified areas to be raised to the Board or referred to other sub-committees of the Board. This process has been strengthened by adding more detail to the committee’s action log.

Terms of Reference

2.8. The Terms of Reference were last reviewed and revised in July 2016, and the review of the effectiveness of the Committee for 2016/17 has proposed some minor changes. The revised Terms of Reference currently includes a third Non-executive noted as ‘TBC’ the Trust is awaiting the outcome of the currently ongoing recruitment of new Non-Executive Director, this will be updated following the conclusion of this process.
2.9. The updated Terms of Reference are presented in Appendix 1, with the changes highlighted.

**Cycle of Business**

2.10. The items on the cycle of business were delivered as agreed.

2.11. Other key items of business covered included:

**Internal Audit**

The Committee was provided with the following reports which provided significant assurance:

- Divisional Quality Governance
- Board Assurance Framework and Corporate Risk Register
- Infection control
- Data quality / KPIs
- Information Governance Toolkit
- Key Financial Systems – this was assessed as significant assurance with minor improvement opportunities. However, it was reported that payroll and accounts payable had been separately graded as partial assurance, and several recommendations relating to control weaknesses had been identified in these areas.

In addition it received the following reports providing partial assurance, in relation to:

- Divisional Financial Management
- IT General Controls
- Cost Improvement Plans
- Medicines Management Follow-up.
- Immigration Compliance
- Business Continuity and Disaster Recovery

The Committee received regular Internal Audit Progress Reports and continue to monitor the completion of outstanding report recommendations. The Committee has been concerned about the slow progress in implementing recommendations from the Medicines Management report and has been closely monitoring progress on this issue.

**Local Counter Fraud Service**

The Audit Committee has received updates from the Counter Fraud service in relation to the following areas of proactive work:

- Pre-employment checks
- Overseas visitors
- Invoice and mandate fraud
- Procurement processes
Contracts management, including updates on a specific contract under detailed investigation.

In addition it has received updates on policy reviews, in particular the LCFS assisted with the update of the Travel and Car parking policy and investigation cases, these primarily related to sickness absence a range of human resources queries, including timesheets and overtime claims and supplier issues.

3. Independent review of Board governance

3.1. During the course of the year the Trust commissioned an independent review of the board governance, this review was undertaken following an external tendering process by Capsticks LLP. The scope of the review was focused around two principal considerations, which are aligned with the CQC’s characteristics of ‘good’ under its well-led domain, namely:

- Are there clear roles and accountabilities in relation to Board governance?
- Does the Board have (and how will the Board in the future ensure that it retains) the collective skills and capability to effectively lead the organisation?

3.2. The report was formally presented to the Board in January 2017 and the summary of the sub-committee findings has been used to inform the Annual Report. The report concluded the following in relation to the sub-committees:

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<thead>
<tr>
<th>Good Practice</th>
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<tr>
<td>Mature and lean Committee structure</td>
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<td>Good focus on areas of responsibility</td>
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<td>Terms of reference are up to date and consistent</td>
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<td>Good attendance at Committees</td>
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<td>Excellent chairing of Committees</td>
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<td>Effective challenge in all Committees</td>
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<td>Executive Directors contribute well even outside of specialty areas</td>
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<td>Linkage between Committees is good in practice</td>
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<thead>
<tr>
<th>Areas for further consideration</th>
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<tr>
<td>Consider restricting NED membership of Committees to three although others can attend</td>
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<td>Review whether the Chair should attend all Committees or only attend sometimes to gain assurance</td>
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<td>Consider the frequency and timings of Committees to ensure they have the right sequencing for Board business</td>
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<tr>
<td>Extend the length of the Audit Committee to three hours – Accepted and now in place</td>
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<td>Put indicative timings on agendas – Accepted and now in place</td>
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<td>Include on the agenda ‘ Matters to be highlighted to the Board ‘ – Accepted and now in place</td>
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<tr>
<td>Include a standing item on risks from BAF and CRR – in place for Audit Committee</td>
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<tr>
<td>Include linkage between Committees in their terms of reference – ToR were reviewed and no additional changes proposed</td>
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4. Key Outcomes
4.1. The following outcomes are proposed as a proxy for the effectiveness of the Committee:

- The risk maturity of the organisation was reviewed in line with the annual review of the Risk Management Strategy and this demonstrated that maturity had been consolidated and maintained during the financial year;

- All significant breaches in relation to internal control systems during the year have been appropriately included in the Annual Governance Statement that has been reviewed and approved by the Board;

- It is anticipated that an unqualified opinion will be received in relation to the annual accounts for 2016/17. The Head of Internal Audit opinion will provide a positive overall opinion of the Trust’s systems of internal control.

5. Conclusion

5.1. The review identified that the Audit Committee has delivered the majority of the responsibilities as set out in the Terms of Reference, attendance at meetings has been complete, and the cycle of business has been completed.

5.2. Those actions highlighted as a result of the independent review of board governance that have been completed have been reflected in section three of this report.

Mrs Anne Tutt
Chairman Audit Committee
May 2017
Audit Committee
Terms of Reference

1. Authority

1.1. The Audit Committee (the Committee) is constituted as a standing committee of the Trust Board. The Committee is a Non-Executive Committee and has no executive powers, other than those specifically delegated in these Terms of Reference. The Terms of Reference can only be amended with the approval of the Trust Board.

1.2. The Committee is authorised by the Trust Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any member of staff and all members of staff are directed to co-operate with any request made by the Committee.

1.3. The Committee is authorised by the Trust Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experiences and expertise if it considers this necessary.

2. Purpose of the Committee

2.1. The Audit Committee is responsible for providing assurance to the Trust Board on the Trust’s system of internal control by means of independent and objective review of financial and corporate governance, and risk management arrangements, including compliance with law, guidance, and regulations governing the NHS.

3. Membership

3.1. The membership of the committee shall be composed of the following core members:

- Chairman of the Committee, Non-executive Director (Mrs Anne Tutt)
- Vice-Chairman of the Committee, Non-executive Director (Mr Christopher Goard)
- Non-Executive Director (Mr Alisdair Cameron TBC)

3.2. Full membership of the Committee is limited to Non-Executive Directors, whom the Board appoints on the recommendation of the Chairman of the Trust. The Chairman may not be a member of the Committee. At least one of the Non-executive Directors should have recent and relevant financial experience.

3.3. The Chief Executive, Director of Finance & Procurement Chief Finance Officer and Director of Assurance, Internal and External Auditors shall generally be in attendance at routine meetings of the Audit Committee.

3.4. The Chairman of the Board’s Quality Committee shall be invited to attend (Mr Geoff Salt, Non-executive Director)

3.5. Other Non-Executive Directors of the Trust may attend the Audit Committee meetings as associate members of the committee. In the event that any of the core members of the Audit Committee are unable to attend a meeting, a substitute Non-Executive Director may attend in their place, with the prior consent of the
Chairman.

3.6. In line with best practice the Chairman of the Trust Board is not a formal member of the Audit Committee, but may be in attendance at committee meetings.

3.7. The Audit Committee may sit privately without any non-members present for all or part of the meeting if they so decide.

4. Attendance and Quorum

4.1 The quorum for any meeting of the Committee shall be attendance by two core members of Non-executive Directors.

4.2 It is expected that all members will attend at least 3 out of 5 committee meetings per financial year. An attendance record will be held for each meeting and an annual register of attendance will be included in the annual report of the committee to the Board.

4.3 The Chair may request attendance by relevant staff at any meeting.

5. Frequency of meetings

5.1. Meetings of the Committee shall be held five times per year, scheduled to support the business cycle of the Trust and at such other times as the Chairman of the Committee shall identify, subject to agreement with the Chairman of the Trust and the Chief Executive.

5.2 The Chairman may at any time convene additional meetings of the Committee to consider business that requires urgent attention.

5.3 Meetings of the Committee shall be set at the start of the calendar year.

5.4 The Internal and External Auditors shall be afforded the opportunity at least once per year to meet with the Committee without Executive Directors present.

6. Specific Duties

6.1 The specific responsibilities of the Committee are to have primary responsibility for financial risk and associated controls, corporate governance and financial assurance.

Internal Control and Risk Management

- To ensure the provision and maintenance of an effective system of financial risk identification and associated controls, reporting and governance.
- To maintain an oversight of the Trust’s general risk management structures, processes and responsibilities, including the production and issue of any risk and control related disclosure statements.
- To review the risk register at each meeting or as the Board determines.
- To monitor and review the Board Assurance Framework, and ensure its presentation to the Board of Directors at intervals that the Board determines.
- To receive and consider the Annual Governance Statement, making recommendations to the Board for approval, where appropriate.
- To review the adequacy of the policies and procedures for all counter fraud work.
• To review the adequacy of the Trust’s arrangements by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting and control, or related matters or other matters of concern.

• To oversee the maintenance of the policy framework of the Trust, in particular the Policy for the Development of Procedural Documents.

• To oversee the effective governance of key anti-bribery and corruption activities and risks;

Internal Audit

• To oversee the effective operation of Internal Audit and ensure its co-ordination with External Audit.

• To review the Internal Audit programme, consider the major findings of Internal Audit investigations and management’s response, and monitor progress on implementation of recommendations.

External Audit

• To assess the External Auditor’s work and fees on an annual basis.

• To discuss with the External Auditor, before the audit commences, the nature and scope of the audit, and ensure co-ordination, as appropriate, with other External Auditors in the local health economy.

• To review External Audit reports, including the Annual Audit Letter, together with the management response, and to monitor progress on the implementation of recommendations.

• To develop and implement a policy on the External Auditor to supply non-audit services.

Annual Account Review

• To review the Trust’s annual statutory accounts, before they are presented to the Trust Board, to determine their objectivity, integrity and accuracy. This review will cover:

  • The meaning and significance of the figures, notes and significant changes;
  • Accounting policies and practices followed and significant changes;
  • Explanation of estimates or provisions having material effect;
  • The schedule of losses and special payments;
  • Any reservations and disagreements between the External Auditors and management not satisfactorily resolved.

Standing Orders, Standing Financial Instructions and Standards of Business Conduct

• To review on behalf of the Trust Board the operation of, and proposed changes to the Standing Orders and Standing Financial Instructions, Codes of Conduct and Standards of Business Conduct; including maintenance of registers of interest.

• To examine the circumstances of any significant departure from the requirements of any of the foregoing.
• To review the Scheme of Delegation

Other audit related issues
• To review performance indicators relevant to the Committee.
• To examine any other matter referred to the Committee by the Trust Board and to initiate investigation as determined by the Committee.
• To annually review the accounting policies of the Trust and make appropriate recommendations to the Trust Board.
• Identify annual objectives of the Committee, produce an annual work plan in the agreed Trust format, measure performance at the end of the year and produce an annual report.

7. Sub-Committees
7.1 The Committee has no established sub-committees.

8. Administrative Support
8.1 The Committee will be supported by the Director of Finance and Procurement Chief Finance Officer, as the nominated lead Executive Director. The Committee will be supported administratively by the Head of Corporate Governance, whose duties in this respect will include:
• Agreement of the agenda with the Director of Finance and Procurement Chief Finance Officer and the Committee Chair, collation and distribution of papers at least five working days before each meeting.
• Taking the minutes and keeping a record of matters arising and issues to be carried forward.
• Providing support to the Chair and members as required.

9. Accountability and Reporting arrangements
9.1 The Committee shall be directly accountable to the Trust Board.
9.2 The Committee shall refer to the Board any issues of concern it has with regard to any lack of assurance in respect of any financial or operational aspect. The proceedings of each meeting of the Audit Committee shall be reported to the next meeting of the Board following production of the minutes. The Chair of the Committee shall prepare a summary report to the Board detailing items discussed, actions agreed and issues to be referred to the Board. The Chair of the Committee is also required to inform the Board on any exceptions to the annual work plan or strategy. The Chair will report any specific issues on the risk register to the Audit Committee.

10. Monitoring Effectiveness and Compliance with Terms of Reference
10.1. The Committee will carry out an annual review of its effectiveness and provide an annual report to the Board on its work in discharging its responsibilities, delivering its objectives and complying with its terms of reference, specifically commenting on relevant aspects of the Board Assurance Framework and relevant regulatory frameworks.

11. Review of Terms of Reference
11.1. The Terms of Reference of the committee shall be reviewed at least annually by
the Committee and approved by the Trust Board.

Date approved: Xx 2017