

**Trust Board Meeting: Wednesday 8 July 2015**  
**TB2015.87**

<b>Title</b>	<b>Audit Committee Chairman's Report Including Annual Report 2014/15</b>
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<b>Status</b>	For Information, and approval of the Annual Report
<b>History</b>	The Audit Committee provides a regular report to the Board.  The Annual Report summarises the activities of the Trust's Audit Committee for the financial year 2014/15, setting out how it has met its Terms of Reference and key priorities.

<b>Board Lead(s)</b>	Mrs Anne Tutt, Committee Chairman			
<b>Key purpose</b>	Strategy	<b>Assurance</b>	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 2014/15 setting out how it has met its Terms of Reference and key priorities.

## Recommendations

4. The Board is asked to:
  - Note the regular report to the Board from its meeting held on 3 June 2015 (Section 1); and
  - Review and approve the Audit Committee Annual Report 2014/15 (Section 2), and formally approve the draft Terms of Reference.

## SECTION 1

### 1. Introduction

The Audit Committee met on 3 June 2015. The main issues raised and discussed at the meeting are set out below.

### 2. Significant issues of interest to the Board

The following issues of interest have been highlighted for the Trust Board:

- a) The Committee's primary focus was to review and make a recommendation to the Trust Board on whether to adopt the Annual Accounts for 2014/15. To that end, the Committee considered the following documentation:
  - i. The Head of Internal Audit's opinion that significant assurance with minor improvements can be given on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
  - ii. Update on Internal Audit Recommendations;
  - iii. Audit Results Report;
  - iv. Audit Committee Annual Report 2014/15; and
  - v. Annual Accounts 2014/15.
- b) The Committee noted that there was one uncorrected misstatement identified by the external auditors, in relation to the capitalisation of Electronic Patient Record [EPR] staff costs. It was confirmed that Representation of Management had been provided, and as of 3 June 2015 the external auditors expected to issue an unqualified on the financial statements.
- c) The Committee also considered the Draft Annual Report 2014/15, including the Annual Governance Statement.
- d) The Committee recommended the Annual Accounts 2014/15 for adoption by the Trust Board.

### 3. Future Business

Areas upon which the Committee will be focusing at its next meeting in September 2015 include:

- Progress Reports on
  - External audit
  - Internal audit
  - Counter Fraud
- Implementation of outstanding recommendations from Internal audit, including specifically recommendations in relation to Clinical Guidelines
- Deep Dive Reviews of
  - Principal Risk 5 – Loss of share of current and potential markets
  - Principal Risk 6 – Failure to sustain an engaged and effective workforce
  - Principal Risk 7 – Failure to deliver the required transformation of services

- Review of Risk Management Strategy
- Update on strategy to evaluate the Trust's clinical audit programme

#### **4. Recommendation**

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

**Mrs Anne Tutt**  
**Chairman Audit Committee**  
**July 2015**

## SECTION 2

### Audit Committee Annual Report 2014/15

#### 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 2014/15 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 Head of Corporate Governance 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 is then broken down into the following subsections:
  - Responsibilities;
  - Membership and attendance record;
  - Reporting arrangements;
  - Cycle of business.
- 2.2. In addition to the above the NHS Audit Committee Handbook committee effectiveness questionnaires were also used as part of the review. Any specific points arising from the checklists, not covered elsewhere, have been highlighted in a separate section of the report.

#### Responsibilities

- 2.3. During 2014/15, 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 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 annual accounts;
- Reviewed, on behalf of the Trust Board, changes to the Trust's Standing orders, Standing Financial Instructions, Scheme of Reservation and Delegation;
- Reviewed the processes for raising concerns (whistleblowing);
- Developed the process for deep dive review of principal risks.
- Reviewed the Trust's register of interest, gifts and hospitality.

### Membership and Attendance Record

2.4. During 2014/15, the Committee met five times with attendance recorded in the table below. This demonstrates that there was a 100% attendance record for the members of the Committee and therefore all meetings were quorate.

Role	21 May 14	4 June 14	17 Sept 14	19 Nov 14	18 Feb 15
Chair – Non-Executive Director (AT)	✓	✓	✓	✓	✓
Vice Chair - Non-Executive Director (CG)	✓	✓	✓	✓	✓
Non-Executive Director (AC)	✓	✓	N	✓	✓

#### Key:

✓ = In attendance      N = Absent      N\* = Deputy in attendance

### Reporting Requirements

- 2.5. The Committee reported to the Trust 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 all 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 Trust Board or referred to other sub-committees of the Trust Board. It has been recognised through the review of the referral process between committees that some improvement could be made to ensure actions passed between committees are more fully captured and appropriate actions taken are reported back to the referring committee. This is in the process of being addressed and a Standard Operating Procedure covering this process is being drafted.

### Terms of Reference

- 2.8. The Terms of Reference were last reviewed and revised in July 2014, and the review of the effectiveness of the Committee for 2014/15 has confirmed that no further changes are required to the Terms of Reference, beyond ensuring that the Terms of Reference are now in line with the new Trust template.

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 with the exception of a scheduled review of the effectiveness of internal audit, external audit and the local counter fraud specialist. It is proposed that this review is put on hold until the Foundation Trust timeline is reviewed, as any review of these services may be used as an aid to decision about service provision.

2.11. Other key items of business covered included:

- Board Governance Memorandum and supporting evidence.
- Investment Policy.
- Health Records Audit.
- Business Planning process.

### **Internal Audit**

The Committee was provided with a number of reports which provided **significant assurance** all of which have been highlighted to the Trust Board previously and four reports providing **limited assurance**, in relation to:

- Cyber Fraud and Security;
- Bank and Agency Staffing;
- Information Governance Toolkit; and
- Sickness Absence.

The Committee received regular Internal Audit Progress Reports. When it was identified that a number of recommendations remained outstanding, the Committee required that management action be taken to implement the outstanding recommendations, and that the Committee be kept updated as to progress.

## **3. NHS Audit Committee Handbook Issues**

3.1. The results of the responses from the questionnaires included within the NHS Audit Committee Handbook were considered by the Audit Committee and the following actions were identified:

- To consider a review of the assurance and regulatory compliance reporting processes.
- To develop a Trust policy to govern the nature and value of non-audit work carried out by the external auditors. It was acknowledged that while the external auditor has confirmed they have their own protocol it was agreed the Trust should develop an internal policy.
- To understand if there are any instances where the Committee would receive assurances from 3rd parties used to manage/ operate key functions.

#### **4. Key Outcomes**

- 4.1. The following outcomes are proposed as a proxy for the effectiveness of the Committee:
- 4.2. 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;
- 4.3. There have been no significant breaches in relation to internal control systems during the year;
- 4.4. It is anticipated that an unqualified opinion will be received in relation to the annual accounts for 2014/15.

#### **5. Conclusion**

- 5.1. The review has 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 mostly completed.
- 5.2. Those areas for action during 2015/16 have been highlighted in paras 2.8 and 3 of this paper.

#### **6. Recommendations**

- 6.1. The Board is asked to:
  - review and approve the Audit Committee Annual Report 2014/15, and
  - formally approve the draft Terms of Reference.

**Mrs Anne Tutt**  
**Chairman Audit Committee**  
**July 2015**



## 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 Goad)
  - Non-Executive Director (Mr Alisdair Cameron)
- 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 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.

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- 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.

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- 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;
- To undertake a regular review of the Trust's registers of Interests, gifts and hospitality;

### **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**, as the nominated lead Executive Director. The Committee will be supported administratively by the Deputy Head of Corporate Governance, whose duties in this respect will include:

- Agreement of the agenda with the Director of Finance and Procurement 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:**           **Month Year**  
**Approved by:**           **[name of parent committee]**  
**Next review date:**       **Month Year**

**Audit Committee Membership 2015/16**

Non-Executive Director (Chair)	Mrs Anne Tutt
Non-Executive Director (Vice Chair)	Mr Christopher Goard
Non-Executive Director	Mr Alisdair Cameron

**Audit Committee Objectives 2015/16**

The Committee's overarching objective is to provide assurance 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. In particular it will:

- Review reports from:
  - Internal Audit;
  - External Audit;
  - Counter Fraud;
- Review the Board Assurance Framework and Corporate Risk Register in detail through continued use of the deep dive process.
- Review other papers from Executive Directors in line with the Cycle of Business set out on the next page, this has been set out to cover the Tern of Reference.

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### AUDIT COMMITTEE CYCLE OF BUSINESS 2015/16

Area	Lead	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Assurance	ACC	Private discussions with Internal and External Audit					Private discussions with Internal and External Audit		Private discussions with Internal and External Audit			Private discussions with Internal and External Audit	
Assurance	Director of Assurance	Board Assurance Framework & CRR					Board Assurance Framework & CRR					Board Assurance Framework & CRR	
Annual Accounts	Director of Finance & Procurement	Financial Statements Review											
Annual Accounts	Director of Finance & Procurement	Review the Trust's Annual Accounts		Annual Accounts									
Annual Accounts	Director of Finance & Procurement			Annual Report									
Annual Accounts	Medical Director	Quality Account		Quality Account									
Annual Accounts	Director of Assurance	Annual Governance Statement		Annual Governance Statement								Annual Governance statement guidance	
Annual Accounts	Internal Audit	Internal Audit Annual Report including Head of Audit Opinion											
Annual Accounts	External Audit	External Audit Progress Report		External Auditor's report to those charged with governance									
Annual Accounts	Local Counter Fraud Specialist	Counter Fraud Annual Report											
Annual Accounts	Director of Assurance			Register of Interests, Gift & Hospitalities'									
Audit	Internal Audit	Internal Audit Annual Plan											
Audit	Internal Audit						Internal audit progress report		Internal audit progress report			Internal audit progress report	
Audit	External Audit	External Audit Fee Letter										Agree External Audit Plan and fees	
Audit	External Audit						External Audit Progress Report		External Audit Progress Report			External Audit Progress Report	
Audit	Local Counter Fraud Specialist	Counter Fraud Annual Plan											
Audit	Local Counter Fraud Specialist						Counter Fraud progress report		Counter Fraud progress report			Counter Fraud progress report	
Audit	Internal Audit	Review and Approve Internal Audit Annual Plan											
Audit	Director of Finance & Procurement	Implementation of O/S Recommendations					Implementation of O/S Recommendations		Implementation of O/S Recommendations			Implementation of O/S Recommendations	
Audit	External Audit						External Auditor's annual audit letter						



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### AUDIT COMMITTEE CYCLE OF BUSINESS 2015/16

Area	Lead	Apr-15	May-15	Jun-15	Jul-15	Aug-15	Sep-15	Oct-15	Nov-15	Dec-15	Jan-16	Feb-16	Mar-16
Strategy & Planning	Director of Planning and Information	Update on Cyber Maturity Report											
Strategy & Planning	Medical Director	Review of Clinical Audit											
Strategy & Planning	Medical Director	Update on Clinical Guidelines Report											
Strategy & Planning	Director of Finance & Procurement											Business Planning Guidance Report	
Strategy & Planning	Director of Finance & Procurement								Review changes SO & SFIs				
Strategy & Planning	Director of Finance & Procurement											Review changes to accounting policies	
Assurance, Governance & Regulation	Director of Finance & Procurement	Review of Losses and Special Payments					Review of Losses and Special Payments		Review of Losses and Special Payments			Review of Losses and Special Payments	
Assurance, Governance & Regulation	Director of Finance & Procurement	Single Tender Waivers					Single Tender Waivers		Single Tender Waivers			Single Tender Waivers	
Assurance, Governance & Regulation	Director of Assurance	Self-assessment of Management capacity											
Assurance, Governance & Regulation	Director of Assurance	Deep Dive Review Scoping PR5					Deep Dive Review Scoping PR1, 3 & 8		Deep Dive Review Scoping PR4 and PR2				
Assurance, Governance & Regulation	Relevant Executive Director						Deep Dive Review: Principal Risk 5,6 & 7		Deep Dive Review: Principal Risk 1, 3 & 8			Deep Dive Review: Principal Risk 4 and Principal Risk 2	
Assurance, Governance & Regulation	Director of Assurance						Risk Management Strategy Review						
Assurance, Governance & Regulation	Director of Assurance								Review the effectiveness of internal audit				
Assurance, Governance & Regulation	Director of Assurance								Review the effectiveness of external audit				
Assurance, Governance & Regulation	Director of Assurance								Review the effectiveness of the Local Counter Fraud Specialist				
Assurance, Governance & Regulation	ACC	Audit Committee Annual Report (to incorporate COB & TOR and Self-assessment)											