

**Trust Board Meeting in Public: Wednesday 13 July 2016**

**TB2016.66**

<b>Title</b>	<b>Audit Committee Chairman's Report Including Annual Report 2015/16</b>
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<b>Status</b>	For Information, and approval of the Annual Report
<b>History</b>	<p>The Audit Committee provides a regular report to the Board.</p> <p>The Annual Report summarises the activities of the Trust's Audit Committee for the financial year 2015/16, setting out how it has met its Terms of Reference and key priorities.</p>

<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 2015/16 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 25 May 2016 (Section 1); and
  - Review and approve the Audit Committee Annual Report 2015/16 (Section 2), and formally approve the draft Terms of Reference.

## SECTION 1

### 1. Introduction

The Audit Committee met on 25 May 2016. 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 2015/16. To that end, the Committee considered the following documentation:
  - i. The Head of Internal Audit's [KPMG's] opinion that significant assurance with minor improvements on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control;
  - ii. Update on Internal Audit recommendations;
  - iii. External Audit Results Report [Ernst & Young]
  - iv. Audit Committee Annual Report 2015/16; and
  - v. Annual Accounts 2015/16.
- b) It was noted that two sets of accounts had been audited: the first document covering the period from 1 April 2015 to 30 September 2015 prior to the authorisation of foundation status and the second document covering the period from 1 October 2015 to 31 March 2016 when the Trust had been authorised as a Foundation Trust.
- c) The Director of Finance and Procurement highlighted an error on page 69 of the main body of the draft Annual Reports 2015/16 [AC2016/05/10] covering end period to 30 September 2015 – two of the right hand columns had been transposed ("cash equivalent transfer value" and "real increase in cash equivalent transfer value") should have been the opposite way round within the table.
- d) The Committee also considered the draft Annual Reports 2015/16 including the Annual Governance Statements
- e) The Committee recommended the Annual Accounts 2015/16 for adoption by the Trust Board.

### 3. Future Business

Areas upon which the Committee will be focusing at its next meeting in September 2016 include:

- Progress Reports on
  - External Audit
  - Internal Audit
- Deep Dive Reviews into low assurance audit reports including:
  - Medicines Management
- Review of Risk Management Strategy

- Update on Clinical Audit Review/Plan

#### **4. Recommendation**

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

**Mrs Anne Tutt**  
**Chairman Audit Committee**  
**July 2016**

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## SECTION 2

### Audit Committee Annual Report

#### 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 2015/16 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.
- 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 2015/16, 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 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 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.

### Membership and Attendance Record

- 2.4. During 2015/16, 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	20 May 15	3 June 15	16 Sept 15	18 Nov 15	17 Feb 16
Chair – Non-Executive Director (AT)	✓	✓	✓	✓	✓
Vice Chair - Non-Executive Director (CG)	✓	✓	✓	✓	✓
Non-Executive Director (AC)	✓	✓	✓	✓	✓

#### Key:

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

- 2.5. The Trust's internal auditors and external auditors were in attendance at every meeting.

### Reporting Requirements

- 2.6. 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.
- 2.7. 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.
- 2.8. 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 each committee's action log.

### Terms of Reference

- 2.9. The Terms of Reference were last reviewed and revised in July 2015, and the review of the effectiveness of the Committee for 2015/16 has proposed that the Terms of Reference be amended to reflect that regular review of the Trust's registers, gifts and hospitality, be reported directly to the Trust Board.
- 2.10. The updated Terms of Reference are presented in Appendix 1.

### Cycle of Business

2.11. The items on the cycle of business were delivered as agreed with the exception of the pause in the scheduled deep dive reviews in February 2016. This process has been put on hold until the work on the strategic developments is concluded.

2.12. Other key items of business covered included:

#### **Internal Audit**

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

- Local Clinical Research Network
- Pharmacy Orders and Payments
- IT General Controls
- IT Disaster Recovery
- Data Quality
- Review of SIRI reporting

In addition it received 6 reports providing **limited assurance**, in relation to:

- Bank and Agency Staffing
- Immigration Compliance
- Raising Concerns, the results of this audit showed some improvements in the process. However, it highlighted that further work to raise staff awareness was required. This was reflected in the actions from this review.
- Statutory and Mandatory Training
- Information Governance Toolkit, the results of this audit were revisited and the Trust received a positive update from Internal Audit.
- Medicines Management.

The Committee received regular Internal Audit Progress Reports and continue to monitor the completion of outstanding report recommendations.

#### **Local Counter Fraud Service**

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

- National Fraud Initiative in relation to data analysis of payroll and creditors systems
- Charitable Funds
- Consultant Waiting List Initiatives

In addition, it has received updates on investigation cases, these primarily related to sickness absence and improper invoices. One case was reported in relation to the contract monitoring information provided by the Churchill PFI provider. This review concluded that there were controls in place however, improvements to these controls were identified.

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

- 3.1. The NHS Audit Committee Handbook recommends the completion of two questionnaires. One for the Chair of the Committee and the other for the Committee members. Both questionnaires have been completed and no significant areas of concern were highlighted as a result. However, the completion of the questionnaires has highlighted a few minor actions for development.

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

- 4.1. In discharging the Terms of Reference as described in the preceding paragraphs the Committee has also achieved the following:
- 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;
  - There have been no significant breaches in relation to internal control systems during the year;
  - The Head of Internal Audit's [KPMG] opinion provided significant assurance with minor improvements on the overall adequacy and effectiveness of the organisation's framework of governance, risk management and control.

#### **5. Conclusion**

- 5.1. The review has identified that the Audit Committee has delivered 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, subject only to the item noted.
- 5.2. Those actions highlighted as a result of the completion of the Audit Committee Handbook questionnaires are included in an action plan to be addressed during 2016/17.

#### **6. Recommendations**

- 6.1. The Committee is asked to:
- Note the contents of the Annual Report; and
  - Review and approve the updated Terms of Reference.

**Mrs Anne Tutt**  
**Chairman Audit Committee**  
**July 2016**



## **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.

- 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

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**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:**           **Trust Board**  
**Next review date:**      **Month Year**

**Appendix 1****Audit Committee Membership 2016/17**

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

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**Appendix 2****Audit Committee Objectives 2016/17**

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 Terms of Reference.

AUDIT COMMITTEE CYCLE OF BUSINESS 2016/17												
Area	Lead	Apr-16	May-16	Jun-16	Jul-16	Aug-16	Sep-16	Oct-16	Nov-16	Dec-16	Jan-17	Feb-17
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										
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	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					
Strategy & Planning	Medical Director						Review of Clinical Audit					
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						Deep Dive Scoping		Deep Dive Scoping			Deep Dive Scoping
Assurance, Governance & Regulation	Relevant Executive Director						Deep Dive Review		Deep Dive Review			Deep Dive Review
Assurance, Governance & Regulation	Director of Assurance						Risk Management Strategy Review					
Assurance, Governance & Regulation	Director of Assurance								Review of accreditation and regulation			
Assurance, Governance & Regulation	Director of Assurance								Review the effectiveness of internal audit, external audit and counter fraud			
Assurance, Governance & Regulation	ACC	Audit Committee Annual Report (to incorporate COB & TOR and Self-assessment)										