

**Trust Board Meeting in Public: Wednesday 11 July 2018**

**TB2018.67**

<b>Title</b>	<b>Audit Committee Chairman's Report including Audit Committee Annual Report 2017/18</b>
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<b>Status</b>	<b>For discussion and approval</b>
<b>History</b>	This is a regular report to the Board

<b>Board Lead</b>	<b>Mrs Anne Tutt, Audit Committee Chairman</b>			
<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.
2. Since the last meeting of the Board held on 9 May 2018, the Audit Committee has met on 22 May 2018, to review the Trust's Annual Report and Accounts 2017/18.
3. Under its terms of reference, the 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. This report aims to contribute to the fulfilment of that purpose.  
  
The regular report provided in Section 1 aims to contribute to the fulfilment of that purpose.
4. In line with best practice in other sectors, and as advised in the NHS Audit Committee Handbook, the Audit Committee also produces an Annual Report to the Board summarising the activities of the Committee for the financial year 2017/18 setting out how it met its Terms of Reference.  
  
This is provided in Section 2.
5. The Audit Committee's Terms of Reference, Membership and objectives for 2018/19 are attached at appendices to Section 2.

## Recommendations

6. The Board is asked to:
  - Note the Audit Committee's regular report to the Board from its meeting held on 22 May 2018 (Section 1); and
  - Note the Audit Committee's Annual Report 2017/18, the Terms of Reference and objectives for 2018/19 as previously approved by the Board on 23 May 2018 (Section 2).

## SECTION 1

### Report from Audit Committee Meeting held on 22 May 2018

The Audit Committee met on 22 May 2018 and recommended to the Board that it approve the OUH NHS Foundation Trust Annual Report and Accounts 2017/18

Having reviewed the content of the Annual Report and Accounts 2017/18 in detail, at meetings held on 18 April, 2 May, 16 May and 22 May 2018, the Audit Committee's recommendation that the Annual Report and Accounts be approved by the Board was in particular based on:

The Head of Internal Audit opinion that significant with minor improvements assurance could be given on the overall adequacy and effectiveness of the Trust's framework of governance, risk management and control; and

The good level of assurance provided by the draft Audit Results Report from External Auditors, noting in particular that Ernst & Young:

- anticipated issuing an unqualified auditor's report in respect of the Trust's accounts;
- planned to issue an unqualified value for money conclusion, (commentary upon which is provided at Section 5 of the Audit Results Report);
- confirmed that there were no matters to be brought to the attention of the Committee in relation to internal controls, or independence; and
- planned to issue an unqualified Limited Assurance Report on the Quality Account, confirming that nothing had come to the auditor's attention to lead them to believe other than that:
  - The Quality Report has been prepared in line with the relevant requirements;
  - The Quality Report is consistent with the other information sources as set out in guidance;
  - The indicators in the Quality Report subject to limited assurance have been reasonably stated in all material aspects

One instance of duplicate billing was identified in the amount of £42k. Extrapolation of the error would result in a figure of £2.6m. *However*, taking all relevant circumstances into account, including the fact that the error had been identified by the Trust's own processes after accounts had closed, the auditors did not regard this as material, and no adjustment had been required. After some discussion, the Audit Committee agreed that no adjustment was required in the circumstances

A detailed review of the Annual Governance Statement had been undertaken which included the identification of issues noted as sufficient to highlight as actions had been taken within the year, as follows:

- enforcement notice in relation to governance over elective waiting times, and
- NHSI's investigation into the Trust's financial performance (*in respect of which the Audit Committee did advise some expansion of the explanatory narrative*)

After careful consideration, the Audit Committee endorsed TME's judgement that there had

been no significant gap in control.

The Audit Committee therefore recommended that the OUH NHS Foundation Trust Annual Report and Accounts 2017/18 be approved by the Board, and this recommendation was accepted by the Board at its meeting held on 23 May 2018.

**Anne Tutt**

**Audit Committee Chairman**

**July 2018**

## 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 2017/18 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.
- 2.1. 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 has been broken down into responsibilities, reporting arrangements, and cycle of business, and membership and attendance record.

#### Responsibilities

- 2.2. During 2017/18 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;
  - Reviewed the Policy for use of auditors on non-audit work;
  - Agreed the internal audit and local counter fraud annual work plans;
  - Reviewed 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 and proposed actions for those areas identified with limited assurance, with the relevant Executive Director present, and monitored the follow-up of outstanding actions;
  - Reviewed the effectiveness of Internal Audit, External Audit and the Local Counter Fraud Service;

- Reviewed the accounting policies, judgements and material misstatements of the Trust and made appropriate recommendations to the Trust Board;
- Reviewed External Audit reports and Annual Audit Letter, including progress on implementation of recommendations;
- Continued to maintain a focus of deep dive reviews considering risks in relation to the NHS Improvement enforcement actions in relation to the revision of the Trust's financial plan and forecast outturn position and also considered the health and safety risks and assurances during the year;
- Reviewed controls for compliance with accreditation and regulation;
- Considered the need to deep dive partnership working and the BOB STP in the context of the results of the CQC's system wide review of Oxfordshire;
- In addition the Committee has received reports in relation to capital projects and the Trust's business case process, reference costs; data security standards and General Data Protection Regulation (2018),
- Undertook market testing exercise for external audit and received updates on appointment of external auditors.

### **Reporting Requirements**

2.3. The Committee reported to the Board after each meeting during the year. Reports included a description of the business conducted, risks identified, deep dive reviews and issues for escalation. Key associated risks highlighted included:

- Divisional Financial Management and CIP review
- RIDDOR Review
- Process of recording accreditation and regulation activities
- Delay in responding to internal audit recommendations
- Introduction of the new regulations relating to Ionising Radiation (Medical Exposure) 2017
- Cyber security and the robustness of systems

2.4. The reports from the Committee effectively covered the key points and significant areas 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, which formed part of the evidence upon which the overall Head of Internal Audit opinion was based. They also included reports which considered the proper arrangements in place to secure economy, efficiency and effectiveness of resources, deep dive reviews into potential risks associated with resilience of Trust Partnerships and information following the global cyber-attack.

2.5. The reports considered areas of weakness identified in terms of internal controls and actions to address. The reports consistently identified areas to be raised to the Board or referred to other sub-committees of the Board.

## Cycle of Business

2.6. The items on the cycle of business were delivered as agreed. Other key items of business covered included:

### Internal Audit

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

- Information Governance Toolkit
- Immigration Compliance
- General IT Controls: General Ledger
- General IT Controls: Web and Mail Systems
- Patient Pathways –End of Life Care
- Horton Maternity Review

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

- Reporting of Injuries, Diseases, Dangerous Occurrences Regulation (RIDDOR)
- Oracle Fusion Implementation
- Consultant Job Planning
- Divisional Financial Management
- Cost Improvement Review
- ITGC: Web and Mail System Controls

The following additional reviews that did not receive a rating, as these were undertaken out of the scope of the regular audit plan, were reported:

- Occupational Health Review
- Cash Management

The Committee received regular Internal Audit Progress Reports and continue to monitor the completion of outstanding report recommendations through updates and progress reports. The Committee continued to highlighted concerns about the delay in implementation of the overdue actions during 2017/18.

### Local Counter Fraud Service

Annual Report 2016/17 was presented to the Committee in April 2017, providing details of the key activities during the financial year. These included areas of:

- Strategic Governance
- Inform and Involve
- Prevent and deter (proactive)
- Hold to account (reactive)

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


- Trust Policies including Counter Fraud and Corruption Policy, Overseas Policy, Declarations of Interest Policy and Whistleblowing Policy, Code of Conduct, Conflicts of Interest / Declarations of Interest and Gifts and Hospitality have been considered.
- Fraud and bribery regulations
- Overpayment of salary
- Overseas referrals
- Confidential referrals from Human Resources

### 3. Membership and Attendance Record

3.1. During 2017/18, 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. The minutes of the meeting confirm the appointment of the new Non-Executive member.

Role	27-Apr-17	24-May-17	20-Sep-17	22/11/017	15-Feb-18
Chair – Non-Executive Director (AT)	✓	✓	✓	✓	✓
Vice Chair - Non-Executive Director (CG)	✓	✓	✓	✓	✓
Non-Executive Director (AC)	✓				
Non-Executive Director (Commenced September 2017 PHP)	n/a	n/a	✓	X	✓

#### KEY

✓ In attendance    x Not in attendance     Left Post

3.2. 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.

### 4. Self - Assessment

- 4.1. The Committee acknowledges that the quality of the papers routinely presented to it has improved during the year, with changes to the presentation of the deep dive reports to provide better assurance on those issues subject to a deep dive.
- 4.2. The Committee routinely considers at the end of each meeting whether the issues which have been discussed have implications for the future Committee meetings. The Committee has routinely used the forward plan as a consistent mechanism for capturing future agenda items to follow-up and ensure the programme of activity is maintained and meets the Committee's needs.
- 4.3. The Committee have reviewed the results of the Annual Reports of the other Board sub-committee these were reported to the Trust Board in May 2018. The Annual Reports provided a summary of the activities of the sub-committee for the 2017/18 year and have been used to inform the development of the Annual Governance Statement.
- 4.4. The following outcomes are proposed as evidence towards the effectiveness of the Committee:



- The draft Annual Governance Statement to be presented to the Board in May;
- In respect of the work undertaken to review the Value for Money [VFM] conclusion, the External Auditors have found the Governance arrangements have been satisfactory;
- All significant breaches in relation to internal control systems during the year have been appropriately presented to the Board for information and appropriately followed-up by the Committee and referred to other Committee's, as appropriate.

## **5. Terms of Reference**

5.1. The Terms of Reference were last reviewed and revised in July 2017. The current review of the effectiveness of the Committee for 2017/18 has proposed some minor changes to reflect the current Committee membership and to include reference to the Committee Forward Plan.

5.2. The updated Terms of Reference are presented in Appendix 1, with the changes highlighted.

## **6. Conclusion and actions for 2018/19**

6.1. 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 quorate, and the cycle of business has been completed.

6.2. Areas for action during 2018/19 include maintaining a focus on the conclusion of internal audit recommendations, gaining a more in-depth understanding of the accreditation and regulation landscape faced by the Trust, to ensure oversight of the improvements to the escalation and de-escalation of risks as part of the review of the risk management system, and to continue with the programme of deep dives..

6.3. The Audit Committee is invited to consider if there are any additional areas of focus of activity for development or inclusion that might lead to further improvement in the effectiveness of the Committee during 2018/19.

## **Recommendation**

The Committee is asked to review and approve the report, subject to any changes agreed in discussion, prior to its formal submission to the Trust Board.

**Anne Tutt**

**Chairman Audit Committee**

**May 2018**

**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 (*Ms Paula Hay-Plumb*)
- 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, 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 *David Mant*, 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 *at least* 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 *and reflected in the Committee's Forward Plan*.
- 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, *judgements and material misstatements* 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
- Undertake any other responsibilities as delegated by the Trust Board

### **7. Sub-Committees**

7.1 The Committee has no established sub-committees.

### **8. Administrative Support**

8.1 The Committee will be supported by the 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 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:**           **Xxx 2018**  
**Approved by:**           **Trust Board**  
**Next review date:**       **xxx 2019**

## Appendix 1

**Audit Committee Membership 2018/19**

Non-Executive Director (Chair)	Mrs Anne Tutt
Non-Executive Director (Vice Chair)	Mr Christopher Goard
Non-Executive Director	<i>Ms Paula Hay-Plumb</i>

**Appendix 2****Audit Committee Objectives 2018/19**

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, including the oversight of the escalation and de-escalation process.
- Review other papers from Executive Directors in line with the Cycle of Business; this has been set out to cover the Terms of Reference.