

REPORT TO THE TRUST BOARD - PUBLIC

29 JUNE 2017

Title	Audit Committee Annual Report
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Accountable Non-Executive Director	Paul Hendrick, Audit Committee Chair

Purpose of the Report:

The Audit Committee Annual Report summarises the activities of the Committee for the financial year 2016/17, setting out how it has met its terms of reference and key priorities

Summary of Key Issues:

In discharging its duty, the Audit Committee meets its responsibilities through requesting assurances from Trust officers, and directing and receiving reports from the auditors, counter fraud specialists and other external advisers. The report details how the committee has conducted its affairs to fulfil its responsibilities in accordance with its terms of reference.

Strategic priorities this paper supports

Improving service user satisfaction	<input type="checkbox"/>	
Improving staff satisfaction	<input type="checkbox"/>	
Maintaining financial viability	<input checked="" type="checkbox"/>	The purpose of the Audit Committee is to assist the Board to deliver its responsibilities for the conduct of public business and the stewardship of funds under its control. In particular, the Committee will seek to provide assurance to the Board that an appropriate system of internal control is in place.

Committees/Meetings where this item has been considered:

Date	Committee/Meeting
23 May 2017	Audit Committee

Implications:

Equality Analysis	The Trust aims to design and implement services, policies and measures that meet the diverse needs of our service, population and workforce, ensuring that none are placed at a disadvantage over others. No adverse or positive impacts have been identified.
Risk and	The Audit Committee supports the Board by critically reviewing governance

Assurance	and assurance processes on which the Board places reliance.
Service User/Carer/Staff	No adverse or positive impacts have been identified.
Financial	There are no direct financial implications.
Quality	There is no direct impact on Quality Improvement Programme.

AUDIT COMMITTEE
ANNUAL REPORT 2016/17

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1. Introduction

- 1.1 The Audit Committee is a principal committee of the Trust Board established with **approved** terms of reference which are consistent with those contained in the Audit Committee Handbook published by Healthcare Financial Management Association and the Department of Health and generally accepted UK Corporate Governance guidelines.

2. Objectives

- 2.1 In summary the main responsibilities of the audit committee are:

- to monitor the integrity of the financial statements of the Trust and any formal announcements relating to the Trust's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the Trust's system of integrated governance, its internal financial controls and the Trust's internal control and risk management systems across the whole of the Trust's activities (both clinical and non-clinical);
- to monitor the development, operation and effectiveness of the Board Assurance Framework
- to monitor and review the effectiveness of the Trust's internal audit function, to agree its annual plan, to review its reports and monitor implementation of their recommendations and to review the annual Head of Internal Audit Opinion;
- to monitor and review the effectiveness of the Trust's Local Counter Fraud Specialist, to agree its annual plan, to review its reports and monitor implementation of their recommendations;
- to make recommendations to the board and Governors in relation to the appointment of the external auditor and terms of engagement of the external auditor;
- to review with the external auditor the audit plan and to review all external audit reports before submission to the Board;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non- audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it

considers that action or improvement is needed, and making recommendations as to the steps to be taken; and

- to report to the board on how it has discharged its responsibilities.

3. Membership

3.1 Throughout the year under review the Audit Committee consisted of the following three independent non-executive directors:

- Paul Hendrick (Chair)
- Mary Elford
- Kingsley Peter

3.2 Brief CVs of all members are available on the Trust's website.

3.3 The Audit Committee invited the following to attend on a regular basis to assist it in fulfilling its functions:

- Chief Executive
- Director of Finance
- Deputy Director of Finance
- Director of Corporate Affairs
- Internal Audit representatives
- External Audit representatives
- Local Counter Fraud Service representatives

3.4 The Committee members held private discussions with both the external and internal auditors during the year.

4. Committee Meetings

4.1 The Audit Committee has met five times during 2016/17 financial year. Below are details of the attendance of its members:

MEMBER	ATTENDANCE
Paul Hendrick	5/5
Mary Elford	5/5
Kingsley Peter	4/5

5. Main areas of activity

5.1 Governance and Risk Management

5.1.1 The Committee assesses and monitors the completeness and adequacy of the risk management system and the extent to which it is embedded in the

Trust. It considers that adequate systems are currently in place but continuous review and improvement by executive management is essential and the Board needs to continuously review emerging risks resulting from the changing environment in which the Trust is operating.

5.1.2 The Committee receives regular reports on the Assurance Framework. It assesses its adequacy and fitness for purpose and makes recommendations accordingly. Where appropriate, the Committee has challenged executive management on aspects of the assurance framework and has instituted 'deep dives' into particular areas of concern.

5.1.3 The Committee has reviewed all relevant disclosure statements of the Trust, more specifically as set out in this report.

5.2 External Audit

5.2.1 For the Financial year 2016/17, KPMG LLP acted as external auditors of the Trust. They provided an unqualified opinion on the accounts for 2016/17.

5.2.2 In relation to external audit, the Committee:

- reviewed the Annual Accounts and Annual Report and made recommendations as appropriate to the Board;
- reviewed, with the external auditors the external audit plan, commenting in particular on any specific areas of risk;
- considered all reports and recommendations from the external auditors;
- considered in particular the external auditors report to those charged with governance prior to its submission to the Board; and
- reviewed arrangements to ensure independence of the external auditors.

5.3 Internal Audit

5.3.1 Internal Audit provides an independent and objective opinion to the Audit Committee, the Accountable Officer and the Board on the degree to which risk management, control and governance in the Trust support the achievement of the its agreed objectives.

5.3.2 During 2016/17 Internal Audit services for the Trust were provided by RSM UK LLP

5.3.3 The Committee reviewed and approved the content of the Internal Audit plan for 2016/17 at its meeting on 19th April 2016, based on the risk profile of the Trust. The Committee received progress reports against the delivery of the plan at each meeting together with completed individual audit reports. Each audit report, which included an overall opinion on the adequacy of the system and application of controls, was considered in detail by the Committee, together with management responses and proposed action plans. The Internal

Auditors undertook an ongoing programme of follow up work around the implementation of recommendations and reported their status at each Committee meeting.

5.3.4 The table below shows a summary actual outcome of the audits carried out in 2016/17 compared to 2015/16:

ASSURANCE LEVEL	2016/17		2015/16	
	Actual	%	Actual	%
Substantial	1	7	3	25
Reasonable	9	64	6	50
Partial	4	29	1	8
No Assurance	0	0	2	17
Total	14	100	12	100

5.3.5 Details of audit assignments completed in 2016/17 and the level of assurance obtained is summarised below:

ASSIGNMENT	ASSURANCE LEVEL
Medical Job Planning	Partial
Data Quality - G3 & G4 Pressure Ulcers – Community Heath Newham, Face Down Restraint, DNAs	Partial
NICE Guidance	Reasonable
Board Assurance/Risk Management	BAF – Reasonable Risk Registers - Partial
Workforce race equality standard	Reasonable
Patient Experience	Reasonable
Incident Management	Reasonable
Cyber Security	Reasonable
Temporary Staffing	Partial
Contract Management	Substantial
Financial Systems	Reasonable
Divisional Governance	Advisory
Risk Management Effectiveness	Advisory
Budgetary Control/CIP	Reasonable
Information Governance	Advisory
Staff Appraisals	Reasonable

5.3.6 The Internal Auditors are required to give the Head of Internal Audit Opinion on the effectiveness of the system of internal control for the financial year. This Opinion contributes to the assurances available to the Accountable Officer and the Board which underpin the Board's own assessment of the effectiveness of the organisation's system of internal control. The Opinion supports the Board in the completing its Annual Governance Statement.

5.3.7 The Head of Internal Opinion was that “The organisation has an adequate and effective framework for risk management, governance and internal control” whilst at the same time noting that “our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective”.

5.4 Counter Fraud

5.4.1 The Trust maintains counter fraud and security management arrangements which are provided by the Local Counter Fraud Specialist (LCFS). The work of the LCFS includes ensuring the counter fraud ethos is embedded in the Trust’s strategic governance, publicising and raising awareness in the Trust of associated risks, deterring the commission of crime and holding to account those who do commit crime.

5.4.2 The Committee approved the LCFS programme of work and received regular updates on its work during the year and was notified of emerging fraud risks which might affect the Trust. The Committee received the Counter Fraud Annual Report at its meeting in April 2017.

5.5 Co-operation with other Board Committees

5.5.1 The Committee receives and reviews reports and minutes from other Board committees where relevant to its work. This is particularly the case with the Quality and Assurance Committee (in such areas as clinical risk and quality of service provision) and the Finance, Business and investment Committee (FBIC) (in such areas as financial risk and changing investment environment). The Committee benefits from overlap of membership with these committees (one member on the Quality and Assurance Committee and two on the FBIC).

5.6 Other Activities

5.6.1 The Committee has:

- considered and recommended to the Board for approval updated Standing Orders, Standing Financial Instructions and Scheme of Delegation; and,
- received reports on the waiving of tendering processes, any reported breaches of Standing Financial Instructions and losses and special payments made during the financial year.

6. Self-Assessment

6.1 The Committee conducts an annual self-assessment using the model questionnaire **contained** in the Audit Committee Handbook published by Healthcare Financial Management Association and the Department of Health. Emerging from this year’s review was a concern that the Board was not

completely clear on distinction of responsibilities between itself and the Committee and in particular that the Committee acts in an advisory role only with the Board retaining full responsibility for, for example, financial reporting and risk management. There was also a view that we might improve the speed and clarity of our Board reporting. The forthcoming board development reviews of the risk management and assurance arrangements should provide an opportunity to address the first concern and the Committee that following each meeting there should be a brief bullet point written report to the Board on key issues, ahead of the issue of the full minutes.

6.2 On the committee's liaison with other Board committees it was noted that exchange of minutes and overlapping membership provided good link-up with the Q&A and FBIC but there was some concern that we did not have adequate visibility of the operation of other committees and their operation in risk management and assurance. In terms of link-up with executive management, it was felt that greater attendance by the CEO would be mutually beneficial.

6.3 On the operation of the Committee, key recommendations include:

- greater clarity on annual work plan and the level of support and information required to fulfil those objectives;
- clearer, briefer working papers; and
- improved follow up on decisions and shorter deadlines for implementation..

7. Future Directions

7.1 Areas to focus on during the 2017/18 financial year include:

- continuing to assess the function of the Committee and develop an action plan in response to the self-assessment exercise;
- ensuring the Board Assurance Framework is continuously updated and reflects the Board's assessment of the risk appetite of the Trust;
- assessing the risk assessment and management arrangements relating to the impact of savings plans on the quality of services provided by the Trust;
- considering risk management relating to the impact of new business initiatives and their pressures on existing resources and capabilities;
- assessing the governance arrangements and systems of internal control for new services; and
- monitoring risks associated with the impact on the Trust's governance arrangements of new methods of working in the NHS

8. Assurance Statement

8.1 The Committee has considered carefully the information presented to it during the course of 2016/17 and is satisfied that it has acted within the scope of, and discharged its responsibilities under, its terms of reference. In particular the Committee confirms it has fulfilled its duties in respect of:

- considering and monitoring the governance arrangements for the organisation;
- the external audit and the Annual Report & Accounts;
- monitoring the provision and outcome of internal audit services, including the approval of an appropriate risk based programme of work; and
- monitoring the provision of counter fraud services, including the approval of an appropriate programme of work.

The Committee is satisfied that:

- The Trust's system of risk management during 2016/17 has been adequate in identifying risks and allowing the Board to understand the appropriate management of those risks; and
- The Assurance Framework has been fit for purpose and provided sufficient assurance to support the Board's decision-making.

Paul Hendrick
Audit Committee Chair