

Public Board 31 May 2012

Audit Committee Annual Report

Presented by: Sarah Connor, Chair of Audit Committee

Purpose

This report summarises the work of the Audit Committee 2011/2012, including the Audit Committee's self assessment and the revised work plan for 2012/13.

Background

The Audit Committee is the senior committee of the Board. It is one of the standing committees that the Trust Board is required to appoint.

The Committee is composed solely of Non-Executive Directors and the Trust Chairman is excluded from formal membership of the committee. This report sets out how the Committee met its terms of reference, revised in line with the standards set out in the updated 2011 Audit Committee handbook and approved by the Board, and those standards.

Readers will remember that (in light of the updated NHS Audit Committee Handbook) Audit Committee documented the sources of assurance on which it relies and which it uses to give the Board assurance that internal controls and risk management are operating effectively. These (as amended below) have been:

- The Board Assurance Framework (BAF)
 - are the processes robust and relevant?
 - are the objectives appropriate?
 - is the data (on which assurances are based) reliable?
- Public disclosure statements (eg annual report & accounts, SIC, Quality Accounts, CQC Registration)
 - are the production processes rigorous?
 - is the data reliable?
 - are the disclosures reliable?
- The quality of Internal Audit and the robustness of their annual work plan
- The quality of External Audit and the robustness of their annual work plan

And we have added Clinical Audit as a source of assurance, in that we receive the annual plan, information of significant issues arising from audits, and annual feedback from this function. Clinical Audit is monitored however by the Clinical Quality Assurance Committee (CQuAC).

Work Programme 2011/12

The Audit Committee programme of work is agreed at the start of the year. The agreed programme for 2011/12 was approved by the Trust Board and has been achieved in year. One change made for 2011/12 was that we agreed to receive Local Counter Fraud Specialist (LCFS)

reports only twice during the year, which freed up sufficient time for our LCFS to do work on the Bribery Act without additional cost to the Trust.

The Committee met on six occasions and was quorate on each occasion. The Director of Finance, Medical Director, Associate Director of Governance and Risk, Deputy Director of Finance, Financial Controller, the Trust's Internal and External Auditors, Local Counter Fraud Service and the Trust / Company Secretary have usually been in attendance at each meeting. Other Directors attend for reports of limited assurance and the Chief Executive attends when appropriate.

The Committee agenda is set up to ensure Quality and Governance are covered and that Internal Audit Reports of Limited Assurance are examined. We have also reviewed at each meeting the Waiver Register, Overdue Audit Recommendations, Losses and Compensation, Gifts and Hospitality and the Register of Interests. The Standing Orders and Standing Financial Instructions are reviewed at least annually. A paper summarising each meeting is produced for the following Board meeting and the minutes are submitted for information. There is a telephone conference with the Chair, supporting Officers and Internal Auditors two weeks prior to the Committee meeting to plan the agenda, commission reports and ensure actions have been completed.

The Committee (at its June 2011 meeting) reviewed the Annual Report & Accounts and gained satisfactory assurance from the External Auditors on the process followed and from the Trust on issues raised in the letter of representation.

The Statement of Internal Control was also reviewed as well as the supporting Head of Internal Audit opinion. The Committee were able to recommend the Board to approve the Annual Accounts and Statement of Internal Control. The Committee will perform the same role at its June 2012 meeting. Financial standing and financial reporting will be assessed by Grant Thornton as part of the annual accounts process, and the final outcome will be reported to the Board in June 2012.

The Committee gains assurance about the adequacy and effectiveness of internal control in-year from the Audit reports it receives from both the Trust's Internal Auditors (RSM Tenon) and External Auditors (Grant Thornton). These are commissioned through annual work plans approved by Audit Committee, and further supported by the Head of Internal Audit opinion and the External Audit Annual Audit letter. Both internal and external audit have in place systems to review compliance with previous audit recommendations and the outcomes are reported to the Audit Committee. The Committee also approves the Local Counter Fraud work plan and receives updates on progress with the plan and individual allegations of fraud at its meetings.

For Internal Audit reports rated with Limited Assurance, and overdue implementation of recommendations, the Committee asks Directors to attend and report on action being taken. There have been no reports with Limited Assurance during 2011/12. The system which records actions was not updated for some months – a number of audit recommendations were known to have been implemented outside agreed timescales, but none warranted personal attendance at Audit Committee.

An internal audit of Procurement identified instances where SFIs had been breached, and therefore could have failed to achieve value for money. In fact, it appears that the spend was appropriate and represented good value for money, but the principle of adherence to SFIs / SOs needed to be reinforced.

During 2011/12, the Committee has had some concerns about the number of internal audits and responses to audit recommendations which have been delayed by Executives. 5 of the 2011/12 reports were received at the May meeting, and 2 have not yet been received; in total 11 reports were / will be received later than scheduled.

The Committee receives an update from the Medical Director (who is the Executive Lead for the CQC declaration) on compliance with the Care Quality Commission's outcomes-based framework. The Committee gained assurance from Internal Audit about the processes for validating the self-assessment and, although some weaknesses in the check-list processes were noted, have been informed that there are actions in place to remedy these.

The Committee reviewed the Board Assurance Framework (BAF) at all meetings up to March 2012. The Medical Director, or the Associate Director of Governance and Risk, presented the BAF to the Committee. However, the Committee has recently recognised that this review overlaps with IRGC and is recommending to cease its review of the BAF as to:

- whether the format is appropriate
- whether controls are sound and complete
- whether assurances are reliable and of good quality

which has been agreed to be more appropriate to, and is done by, IRGC. Revised Terms of Reference are attached at Appendix 2 for review by the Board. Amendments have been highlighted.

Self Assessment 2011/12

This year, for the first time, RSM Tenon, our Internal Auditors, made available to us an on-line questionnaire, structured to identify Committee effectiveness, designed around the NHS Audit Committee Handbook 2011 et al.

Committee members, together with a number of attendees and other NEDs and Executives who come into contact with the Committee and its work / reports, completed the questionnaire (10 respondents in total), and this paper summarises the results.

The questionnaire comprised 5 sections: focus; team-working; effectiveness; engagement; and leadership. The questions, 51 in total, were structured as statements, and were answered: "strongly agree"; "agree"; "disagree"; "strongly disagree"; "unable to answer".

A summary of total responses (discounting non-responses) by section shows:

	strongly agree	agree	disagree	strongly disagree
focus	23	58	7	0
team-working	27	71	7	0
effectiveness	23	75	7	1
engagement	14	54	6	0
leadership	9	45	0	0

Overall, opinions were expressed 427 times out of a possible 520 (not everyone was able to answer every question, especially where they do not attend Audit Committee).

Most statements were agreed with (93%), although some were qualified by comments, which have been listed and reviewed by Audit Committee, as they make some useful suggestions for improvement.

Where statements were disagreed with, the comments suggest areas where Audit Committee needs to consider changes to improve the way we work.

In particular, the length of the meeting is of concern, and we took steps to address this at the November and March meetings, where we agreed to take some agenda items off, or reduce the time spent on them. We agreed again to take a firmer line on receiving papers in advance of the meeting to save time presenting information at the meetings, and on more concise papers with a cover paper, more like the Board papers. And I believe the Committee is open to constructive

suggestions to reduce the time spent so long as it doesn't compromise the quality of assurance. At the end of the day, however, there is a certain amount of business the Committee is required to do, and it does have the biggest workload out of all the Board Committees, so a lengthy meeting may not be avoidable.

There are also comments on whether the Committee fully understands its objectives, as we work from Terms of Reference rather than having our remit articulated by the Board in terms of its expectations. More challenge by and engagement from the Board would be very welcome, and might assist another concern which is about how well the Committee's role, and its importance, is understood across the wider organisation. It was agreed to include some related questions in the Board Self-Assessment.

In addition, I have reviewed the Self-Assessment check-list included in the NHS Audit Committee Handbook, in order to confirm whether we are complying with recommended practice, where there are items not covered by the RSM Tenon questionnaire. There are 36 out of 38 of these "must do" items with which we are complying, but 2 with which we are not currently complying:

1. internal audit's terms of reference should be approved by the Committee and regularly reviewed – we agreed to put this on the September agenda
2. the Committee should review the effectiveness of the local counter fraud service and the adequacy of its staffing and resources – External Audit are in progress of reviewing LCFS and will report back.

We also comply with the majority of "should do" and "could do" items in the check-list. In previous years, prior to the revision of the Handbook, we were fully compliant with the "must do" items.

The Board approved an Audit Committee work-plan for 2012/13 at a previous meeting. However, in view of changes agreed at Audit Committee's March meeting, a revised draft work programme for 2012/13 is attached at Appendix 1. The format now reflects the agenda headings, which identify the sources of assurance. The Committee will continue to monitor this work programme throughout the year and will be flexible to change as required. Changes from the 2011/12 work-plan include: adding a review of the Quality Account; removing the review of the BAF from the agenda, as noted earlier, and replacing this with an annual report on the effectiveness of risk management processes; merging CQuAC and IRGC feedback to avoid duplication; removing the recent requirement to review internal audit scope as the Finance Director has taken this on; removing the recent agreement to review compliance with Commercial Sponsorship and Anti-Bribery policies as this is agreed to be an Executive function; and removing the requirement to review the Register of Interests at each meeting (it will in future be an annual review).

The Committee is required to keep up-to-date and it achieves this in a number of ways. Briefings from External and Internal Audit, update papers included in the Audit Committee agenda and informal visits within the Trust all assist in achieving this objective. We discuss whether there is a need for additional contact with the Trust or training at one meeting each year.

The Committee conducts its business based on an agreed work programme that is completed in a timely and professional manner. It discharges almost all of the obligations placed on it through the NHS Audit Committee Handbook 2011 (and has plans to achieve the missing 2 items, as noted above). In addition, it works closely with the Integrated Risk and Governance Committee to ensure that assurance can be given to the Board that there is sufficient focus on all risks that may affect the business of the Trust. The Committee also maintains an overview of the costs and quality of internal and external audit.

Conclusion and Recommendation

The Audit Committee believes that it has demonstrated that it has met its duties set out in its terms of reference, and has fulfilled its principal role "to comment on the adequacy and effective

operation of the organisation's internal control system". The Committee can conclude, and give the Board assurance, that the Trust's internal control systems are fit for purpose. This conclusion matches the Trust's own conclusion as set out in the Annual Governance Statement, the opinion in the Local Counter Fraud Service annual report for 2011/12, and the opinion expressed by the Head of Internal Audit in his annual report for 2011/12.

The Board is asked to note the report, endorse the self-assessment, approve the revised work plan 2011/12, and approve the revised Terms of Reference.

**Sarah Connor
NED Chair of Audit Committee
May 2012**