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Trust Board – 28 November 2013

**Report of the Audit Committee**

Presented by: Sarah Connor, Chair of Audit Committee

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**1. Purpose**

1.1 This paper provides a summary of the items discussed at the Audit Committee meeting held on 14 November 2013.

**2. Items Discussed**

2.1 **Clinical Audit** – the formal structure and management of clinical audit have lapsed for a number of reasons, although clinical audits are still being done. A new structure is being developed, together with strategy and plans, which will be brought to the Audit Committee January meeting. In the meantime, we are unable to give the Board assurance from this source.

2.2 **BAF** – there was recognition that, although formal processes for risk management have largely ceased to operate, for a number of reasons, there are many routes through which risk is escalated and managed (e.g. onion, risk summits). The Committee expressed a concern that this might be seen as fire-fighting and it would be useful to identify formally the elements which contribute to good risk management processes. The Auditors also advised that sources of assurance are not being identified.

2.3 **Internal Audit** - the Internal Audit programme of work is on track, but the audit of medical consultants' planning, which has received a limited assurance opinion, should have been brought to the November Audit Committee meeting. This report will be reviewed by TLEC and the Risk Summit, and will be brought to the Audit Committee January meeting instead.

2.4 **Internal Audit** - Internal Audit have reviewed the outstanding actions from previous audits, found many not completed (beyond agreed dates), and are having difficulty getting responses to others. The FD has offered help, but Audit Committee has asked in addition that this is reported to TLEC for resolution before the January Audit Committee meeting.

2.5 **Local Counter Fraud and External Audit** - Both Local Counter Fraud Specialist and External Audit reported satisfactory progress against their programmes of work.

2.6 **Annual Report** - The draft Committee Chair Annual Report to the Board was reviewed, together with the results of the Audit Committee Self Assessment and the Annual Work Programme, and agreed for submission to the Board's November meeting. These are attached at appendices A and B.

### **3. Conclusion**

3.1 Finally, although I have spent a lot of time and effort improving Audit Committee standards and processes during the past nearly 4 years, I believe there is still a long way to go if the Committee is to be considered anything like mature as assessed on the Good Governance Institute Audit Committee matrix. The Board is not really engaged with the Committee and I am not sure if it is seen by the Board as providing real assurance on substantial matters – perhaps more as a statutory necessity tucked away quietly out of sight and minding its own business rather than the Board's business. I recommend that the Board starts by taking an active interest in the Audit Committee annual programme of work, and how it relates to the Terms of Reference, and sets some objectives focussed around issues on which it would like assurance from the Committee.

### **4. Recommendation**

4.1 The Board is asked to note the report.

**Sarah Connor**

Non Executive Chair of Audit Committee

November 2013

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**Public Board 28 November 2013**

**Audit Committee Annual Report**

**Presented by: Sarah Connor, Chair of Audit Committee**

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### **Purpose**

This report summarises the work of the Audit Committee 2012/2013, including the Audit Committee's self assessment and the work plan for 2013/14.

### **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.

During 2010/11 (in response to 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 are:

- 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
- The quality of Clinical Audit, via receipt of their annual plan, information of significant issues arising from audits, and annual feedback. (Clinical Audit is however monitored by the Clinical Quality Assurance Committee (CQuAC)).

### **Work Programme 2012/13**

The Audit Committee reviews and agrees its programme of work at the start of the year. The agreed programme for 2012/13 was approved by the Trust Board and was mostly achieved in year (some information / update agenda items were dropped from the March agenda to allow time for a NED meeting with the new CEO).

The Committee met on six occasions and was quorate on each occasion. The Director of Finance, Medical Director, Associate Director of Governance and Risk, the Trust's Internal and External Auditors, 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 structured around:

- internal assurance
- assurance on financial management
- audit assurance
- annual report progress
- annual assurance reports to the Committee
- effectiveness reviews

and 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, and the Losses and Compensation schedule. **The Gifts and Hospitality information and monitoring process has been of limited effectiveness during 2012/13. The Committee has not received comprehensive reports and is not able to provide the board with assurance that this process is working - although a revised policy and process was briefed at the March meeting.** The Committee agreed to receive the Register of Interests only annually but did not see it during 2012/13. Audit Committee confirmed agreement at the September 2012 meeting to review Standing Orders and Standing Financial Instructions upon gaining FT status or in 2013, whichever is sooner, unless changes are necessary. It has now been agreed to defer the review until 2014.

A paper summarising each meeting was produced for the following Board meeting until March, when the Board indicated this was no longer needed, and the minutes are submitted for information. There was a telephone conference with the Chair, supporting Officers and Internal Auditors two weeks prior to each Committee meeting to plan the agenda, commission reports and ensure actions have been completed.

The Committee (at its June 2012 meeting) reviewed the Annual Report & Accounts for 2011/12 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 Annual Governance Statement (formerly the Statement of Internal Control) was also reviewed as well as the supporting Head of Internal Audit opinion. The Committee was able to recommend that the Board approve the Annual Accounts and Annual Governance Statement. The Committee performed the same role at its June 2013 meeting, and, in addition, was delegated authority to, and did, approve these documents on behalf of the Board. Financial standing and financial reporting were assessed by the Trust's External Auditors, Grant Thornton, as part of the annual accounts process, and the final outcome will be reported to the Board.

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 (2012/13: 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 against both the plan and individual allegations of fraud at its meetings.

For Internal Audit reports rated with Limited Assurance, and overdue implementation of high priority recommendations, the Committee asks Directors to attend and report on action being taken. **There was one report with Limited Assurance during 2012/13 (Data Quality / Data Capture), which was noted in the Head of Internal Audit Opinion in the Annual Governance Statement.** The Director of Partnerships attended Audit Committee to discuss the report and actions in progress as a result, and it was agreed that the report is being used to improve processes. **Two further Internal Audit reviews (IT Governance and IT Procurement) would have received Limited Assurance opinions had they been audits. The reviews identified elements of non-compliance with Trust policies and procedures, as well as the circumvention of procurement SFIs and OJEU requirements and a number of other issues, and generated 27 recommendations in total.** The Finance Director used these reports to re-emphasise the importance of SFIs across the Trust.

**Again during 2012/13 (as in 2011/12), the Committee has had concerns about the number of internal audits and responses to audit recommendations which have been delayed by Executives.**

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. **Subsequent to the end of the year, Audit Committee, among others, has been made aware that the Trust's CQC Registration did not cover all services, so the Committee is not able to provide the Board with more than limited assurance.**

The Committee has not reviewed the Board Assurance Framework (BAF) documentation since March 2012. It was recognised that this review was overlapping with IRGC Terms of Reference and responsibilities, and so it was recommended to the Board, and agreed, that Audit Committee 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

### **Self Assessment 2012/13**

Committee NEDs, External Audit and Internal Audit completed the checklist contained in Appendix B of the revised NHS Audit Committee Handbook. This checklist sets out the requirements for the Committee to achieve best practice standards.

In the opinion of those completing the questionnaire, the Committee is doing what is required of it.

A summary of the responses was collated within the Trust, and indicates that those completing the questionnaire were able to answer “yes” to the majority of the questions. Of the 258 question responses, 227 (88%) were “yes” answers. There were 15 (6%) “no” answers, 3 (1%) “not applicable” answers and 10 (4%) with no answer.

The checklist groups questions into “must”, “should” and “could” categories. There were only 2 “no” answers to “must” questions, and these both relate to Audit Committee responsibilities which the Board has delegated to other Board Committees.

### **Work Plan 2013/14**

Audit Committee reviewed the draft work-plan for 2013/14 at the May meeting and again at the November 2013 meeting in light of revised Terms of Reference, and this is now submitted to the Board for their approval. The Committee will continue to monitor this work programme throughout the year and will be flexible to change as required. The only amendments from the 2011/12 work-plan are to meet the requirements of Section 6 of the revised Terms of Reference.

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 all of the obligations placed on it through the NHS Audit Committee Handbook, either itself or through co-operative working with other Board Committees. In addition, it has, during 2012/13 worked 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, based on the assurances received during the year, the Trust’s internal control systems were 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 2012/13, and the opinion expressed by the Head of Internal Audit in his annual report for 2012/13.

**The Board is asked to note the report, endorse the self-assessment, and approve the work plan for 2013/14.**

**Sarah Connor  
NED Chair of Audit Committee  
November 2013**



## Audit Committee Self Assessment March 2013

Set out below is the summary of the responses to the Audit Committee self assessment. It should be noted that this may not include all responses as it has not been possible to confirm whether others have been received. If others have been received which have not been made available at this time the data will be updated in time for inclusion in the final version of the Audit Committee annual report.

In essence the summary indicates that in the majority of instances those completing the questionnaire felt that they were able to answer “yes” to most of the questions. Of the 258 individual responses 227 of them (88%) answered “yes” to the questions. Fifteen (6%) responded “no” whilst 3 (1%) responded as not applicable. There were 10 (4%) responses indicating no comment. The overwhelming conclusion that can be drawn is that based on the self assessments the Audit Committee members who completed returns were assured that the Committee was fulfilling its responsibilities and had the right processes in place.

### Self Assessment Summary

Self Assessment Area	Number of Questions By Category (1 –Must, 2-Should,3-Could)	Number of Yes Response	Number of No Responses	Number of Not Applicable Response	Number of Non Responses	Comments
Composition, Establishment and Duties	Must – 11 (33) Should – 1 (3)	29 1			3	1 Cannot comment, 1 cannot comment <b>Induction offered</b> <b>Skill set seems appropriate</b>
Meetings	Must – 3 (9) Should – 3 (9)	9 9				
Compliance with the law and regulations governing the NHS	Must 1 (3) Should 1 (3) Could 1 (3)	2 3 1	1 1	1		<b>Delegated certain areas to other committees (relates to No response in respect of “must” category)</b>



						<p>Committee has assessed need for support informally and we do have some support (relates to No response in respect of “could” category)</p> <p>Committee keeps apprised of key issues via internal and external audit</p>
Internal Control and Risk Management	Must – 11 (33) Should – 1 (3)	29 3	1		3	<p>Integrates with other committees by verbal reports, also some in writing</p> <p>Robustness of BAF undertaken by IRGC (relates to No response in respect of “must” category)</p> <p>Robustness of reports and assurance assessed through a range of Internal Audit and External Audit reports and periodically via the audit process</p>
Internal Audit	Must – 10 (30) Should – 9 (27) Could -2 (6)	30 24 6	2		1	<p>Don’t think key principles for internal audit are set out in the Standing Financial Instructions</p> <p>Don’t think so but maybe (TORs in SFIs)(relates to No response in respect of “should” category)</p> <p>External audit do on our behalf (relates to No response in respect of “should” category)</p> <p>One no response without commentary provided for “should” category</p>

						<p><b>Internal audit compliance with required standards undertaken by external audit on behalf of committee and is further assessed through external audit and RSMTs own quality process and via the audit process</b></p> <p><b>Co-operation with external audit plan provided in line with Grant Thornton’s audit plan</b></p> <p><b>In 11/12 Annual Report an external review of processes was reported</b></p>
External Audit	<p>Must - 4 (12) Should – 3 (9) Could -2 (6)</p>	<p>12 9 4</p>	1	1		<p><b>Grant Thornton report annually at least on additional work</b></p> <p><b>Don’t think there is any (non-audit work carried out by the external auditor) (relates to No response in respect of “could” category)</b></p>
Clinical Audit	<p>Must – 1 (3) Should – 1 (3) Bullet points from “Should” 11(33)</p>	<p>3 1 4</p>	5	1 4	1 20	<p><b>Five No responses given against the bullet points but no commentary</b></p>
Counter Fraud	<p>Must – 8 (24) Should -2 (6)</p>	<p>24 5</p>	1			<p><b>Monitoring the implementation of management action from reports is an area for enhancement (relates to No response in respect of “should” category)</b></p> <p><b>Committee does not formally monitor the adequacy of staffing</b></p> <p><b>No CFMS inspection reports received</b></p>

						<b>We would but none received (reports arising from quality inspections from CFMS)</b>
Annual Accounts	Must – 4 (12) Should – 3 (9) Could – 1 (3)	12 6 1	3 1		1	<p><b>No longer thought necessary to review the draft accounts before start of the audit (relates to No response in respect of “could” category)</b></p> <p><b>Fitness to register with the CQC done elsewhere/other Board Committee but Committee receives update reports (relates to two No response in respect of “should” category)</b></p> <p><b>Board receives and reviews Trust’s Annual Report (relates to No response in respect of “should” category)</b></p>
Other Issues	Should – 1 (3) Could – 2 (6)	3 1	4		1	<b>Four No responses given but with no commentary in respect of “could” category</b>

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**Audit Committee Work Programme 2013/14**

12 Sept 2013	14 Nov 2013	16 Jan 2014	13 Mar 2014	Xx May 2014	Xx June 2014
<b>INTERNAL ASSURANCE</b>					<b>SPECIAL MEETING</b>
<i>Patient Safety and Risk Committee feedback on items for AC attention</i>	<i>Patient Safety and Risk Committee feedback on items for AC attention</i>	<i>Patient Safety and Risk Committee feedback on items for AC attention</i>	<i>Patient Safety and Risk Committee feedback on items for AC attention</i>	<i>Patient Safety and Risk Committee feedback on items for AC attention</i>	Private Meeting with IA and EA
CQC Registration update	CQC Registration update	CQC Registration update	CQC Registration update	CQC Registration update	
Clinical Audit Results of Concern	Clinical Audit Results of Concern	Clinical Audit Results of Concern	Clinical Audit Results of Concern	Clinical Audit Results of Concern	
	In-year Review Clinical Audit Plan	<b>Review any relevant findings from significant assurance functions</b>	Clinical Audit Plan 2014/15	Clinical Audit Annual Report	
		Review SO, SFI & Scheme of Delegation	<b>Review any relevant findings from significant assurance</b>	Review Register of Interests	
				Review Use of Trust Seal	
				<b>Review assurance processes to assess degree of achievement of corporate objectives</b>	
				<b>Review policies relating to regulatory, legal and code of conduct requirements to ensure Trust compliance</b>	

				Review policies and procedures for all work related to fraud and corruption	
				Review any relevant findings from significant assurance functions e.g. CQC, NHSLA, Royal Colleges, Accreditation Bodies, and consider the implications for organisational governance	
<b>ASSURANCE ON FINANCIAL MANAGEMENT</b>					
Finance Report update	Finance Report update	Finance Report update	Finance Report update	Finance Report update	External Audit ISA 260 Report
Review Losses and Compensation Register	Review Losses and Compensation Register	Review Losses and Compensation Register	Review Losses and Compensation Register	Review Losses and Compensation Register	
Review Waiver Register	Review Waiver Register	Review Waiver Register	Review Waiver Register	Review Waiver Register	
Review Gifts & Hospitality Register	Review Gifts & Hospitality Register	Review Gifts & Hospitality Register	Review Gifts & Hospitality Register	Review Gifts & Hospitality Register	
<b>AUDIT ASSURANCE</b>					
EA Progress Report	EA Progress Report	EA Progress Report	EA Progress Report	EA Progress Report	
Review EA Performance		Approve EA Plan and Fees	Review IA strategy, work plan and fees	Review IA ToR and effectiveness	
IA Progress Report	IA Progress Report	IA Progress Report	IA Progress Report	IA Progress Report	Review of Financial Resilience
Overdue Audit Recommendations	Overdue Audit Recommendations	Overdue Audit Recommendations	Overdue Audit Recommendations	Overdue Audit Recommendations	
Review of any limited assurance reports - Exec Lead to attend	Review of any limited assurance reports - Exec Lead to attend	Review of any limited assurance reports - Exec Lead to attend	Review of any limited assurance reports - Exec Lead to attend	Review of any limited assurance reports - Exec Lead to attend	
	LCFS Progress Report		Review LCFS ToR, Policy, Plan, Fees	Review LCFS Annual Report	

<b>ANNUAL REPORT PROGRESS</b>					
			Review process and progress of draft annual accounts	Review process and progress of draft annual accounts	Review and agree audited accounts & financial statements
					Review Letter of Representation
					Recommend Accounts to Board for adoption
			Review process and progress draft Annual Report	Review process and progress draft Annual Report	Review Annual Report
		Review process and progress of Annual Governance Statement	Review process and progress of Annual Governance Statement	Review process and progress of Annual Governance Statement	Review Annual Governance Statement
			Review process and progress on draft Quality Account	Review process and progress on draft Quality Account	Review Annual Quality Account
<b>ANNUAL ASSURANCE REPORTS</b>					
Receive EA Annual Audit Letter			Annual Assurance Report on Risk Management	Consider IA Annual Report	
<b>EFFECTIVENESS REVIEWS</b>					
			AC Self-Assessment on Effectiveness	AC Self-Assessment on Effectiveness	
			Review AC work schedule	Approve AC Annual Report	
		Review AC Terms of Reference (if necessary)	Review Members contact with Org / Execs and training needs		