

TRUST BOARD REPORT – 29th January 2015 AUDIT & ASSURANCE COMMITTEE ANNUAL REPORT

1. Purpose

The purpose of this paper is to provide assurance to the Board that the Terms of Reference of the Committee (AAC) are being met, to highlight significant issues that have been raised, resolved or challenged and to describe improvements in the way the AAC works.

2. Context

The purpose of the AAC is to assist the Board of Directors by providing assurance that the Trust is well managed across the whole range of their activities through:

- i) *reviewing the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the organisation's activities (both clinical and non-clinical);*
- ii) *ensure there is an effective internal audit function established by management, which provides appropriate independent assurance to the AAC;*
- iii) *reviewing the work and findings of the External Auditor appointed by the Audit Commission and consider the implications and management's responses to their work and;*
- iv) *reviewing the annual report and financial statements before submission to the Board.*

The AAC meets every other month for normal business and convenes extra meetings where necessary to support the management of annual accounts.

The Agendas are split into 4 parts looking at risk management, internal controls, audit (internal and External) and general business.

3. Sources of assurance

Best practice guidance for assurance models refer to three lines of defence:

- The 'First line' of defence relates to risk and control systems at local level such as purchasing or staffing and local management of risk.
- The 'Second line' of defence relates to oversight and scrutiny by Executive Team and the Board. This includes the BAF, significant risk register and oversight of internal controls
- The 'Third line' relates to external sources of assurance such as External Audit, Internal Audit and the CQC.

The AAC reviews the maintenance of effective systems of governance, risk management and internal control, across the whole of the organisation's activities throughout the year the AAC has reviewed assurances from all three lines of defence to gain balanced insight and assurance.

To meet it's terms of reference the AAC receives:

- The Board Assurance Framework (2nd and 3rd Line) and SRR (1st line).
- Managements review of internal controls throughout the year (1st and 2nd line).
- Sound management of financial risk that evidences dynamic adaption to meet local and national changes (1st and 2nd line).

- Reports from the finance team on losses and compensation and amendments to SFIs and review of accounting policies (1st line).
- Reports from Internal Audit and Counter Fraud services which provide assurance and through discussion benchmarking information (3rd line).
- Reports from External Audit which provide assurance, benchmarking and emerging national themes and issues (3rd line).
- The annual accounts, annual report and annual governance statement (2nd and 3rd line).

4. Committee activity during 2015

During the 2015 the AAC has looked to develop and strengthen Board level assurance of internal controls. This was based on the foundation of sound financial controls and the first internal controls map developed throughout 2013. The main points of note are:

- Audit of annual accounts by external audit commented on the quality of the accounts without any recommendations and the Trust's "Quality Account" (Strong 3rd line assurance)
- In its review of annual accounts External Audit gave a qualified "except for" conclusion in respect of the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources as a result of the Trust incurring a deficit of £2.4 million in 2014/15 (3rd line assurance)
- Early review and signoff of the annual governance statement and annual report (as part requirements of the annual accounts, 2nd and 3rd line assurance)
- Regular review and challenge of BAF and Significant Risks register and their process which have identified improvements to the detail and accuracy of both board papers (1st and 2nd line assurance).
- Regular review of managements self-assessment of internal controls (commenced 2015, 1st and 2nd line assurance)
- Reviews of Internal Audit and Counter Fraud activities have provided assurance of Trusts controls and the support these services provide. Management and completion of Internal Audit recommendations which has been positive throughout the year (Strong 3rd line assurance).
- Noting assurances provided by Monitor on its initial review of Board Governance and Quality Governance which included a full review of AAC minutes and board reporting (3rd line assurance).

The AAC commenced the review of management's assessment of internal controls. Throughout the year 6 sections of the internal controls map were reviewed. This provided strong assurance that management was aware of internal control issues and is taking action to manage issues. The internal controls systems reviewed were; financial, clinical governance, corporate governance, workforce controls, patient systems and legal requirements. Of note the AAC agreed with the Finance and Workforce Committee review of workforce controls and planned follow up review in 2016 to monitor implementation of actions required.

5. The Board Assurance Framework

The AAC considers the content of the BAF such that appropriate updates can be made prior to the Public Board and confirm assurance on the process of review and updates of

the BAF. This process encompasses a significant amount of activity. Little time is spent reviewing the systems that support the development of the BAF and SRR as they are well embedded and the AAC receives assurance from internal audit relating to the narrative that supports each BAF risk. As such the AAC spends considerable time discussing the content of BAF risks.

In particular during this period of national financial challenge the AAC has regularly tested management’s assessment of financial risk and control systems. Which have led to very robust conversations with challenge from members of the AAC, external opinion from Internal and External Audit and assurances from Management. The AAC has also tested other elements of the BAF such as workforce and elements of clinical risk and assurances from internal controls and Internal audit.

Through triangulation and robust challenge the AAC gains assurance on the content and narrative of the Board Assurance Framework and tasks the Executive team with specific points of review or clarification that are to be addressed prior to presentation at public Board.

6. Ways of Working

The AAC has relied on a healthy balance of challenge and discussion led by the membership and supported by executive leads and internal and external audit. Throughout the year the AAC has requested attendance from executive and management leads to provide support and allow challenge of any issues that have been identified as a significant issue.

The Committee’s terms of reference states that there shall not be less than three non-executive directors on the membership, one of whom shall be appointed as Chairman of the AAC; the quorum necessary for the transaction of business shall be three. Attendance throughout the year is has been as follows:

Member	Jan 15	Mar 15	Apr 15	May 15 (meeting rescheduled)	Jul 15 (meeting rescheduled)	Sep 15	Nov 15
Paul Biddle (Chair)	√	√	√	√	√	√	√
Richard Durban	√	√	√	A	A	√	√
Richard Shaw	√	A	√	√	√	√	√
Yvette Robbins	√	√	A				
* = Acting Committee Chair, A = Apologies received							

As discussed below in the self-assessment of maturity, the main area which the AAC could strengthen its effectiveness is through its linkages to both the Board and the other sub-committees. The Trust’s governance framework indicates that the AAC sits between the Board and other Board sub committees as a vehicle to both seek and provide assurance to the Board.

As such the AAC receives reports from both the Safety and Quality Committee and Finance and Workforce Committee on internal controls, updates on Internal Audit audits and BAF risks. These are challenged and form regular sections of the AAC update report to the Board.

The main area for potential improvement is the development of inter linkage between the Board and the AAC. For example the Good Governance Institutes maturity Matrix states that mature committees have in a place “a clear action plan or set of objectives for the audit committee is produced. This then guides the ongoing work of the audit committee’ and provides assurance to the Board that the AAC’s work is aligned to the core business of the Trust.

The AAC could also see improvements in functionality through systems to review the activity of Nomination and Remuneration Committee and Charitable Funds Committee.

7. Self-Assessment of Maturity

The AAC has chosen to use the Good Governance Institutes audit committee maturity matrix to consider its maturity. This matrix scores the committee across 6 elements against 5 levels (1 Basic – 5 Exemplar). The review was carried out by the 3 members of the AAC and then tested at the January 2016 meeting. The committee members scored each element as follows:

Element	Level	Progress	Summary Comments received
Purpose and mandate	Lvl 4 'Maturity'	Board able to rely on committee to provide independent, credible assurance. If considered relevant by board, specific scrutiny and assurance requirements of third parties included in annual programme of audit committee. Key documents for disclosure are challenged to provide value for stakeholders	Board input into programme of work
Independence and initiative	Lvl 4 'Maturity'	Board considers audit committee a sound, independent assurance mechanism. There is clear evidence of challenge to poor and/or unreliable sources of assurance	Not all 3 rd party assurances considered and clinical audit reviewed by SQC
Holistic remit	2x Lvl 4 1x Lvl 3 'Maturity'	Board considers audit committee a sound, independent assurance mechanism. There is clear evidence of challenge to poor and/or unreliable sources of assurance	N/A
Relationship with audit	2x Lvl 4 1x Lvl 3 'Maturity'	Other audit and assurance activities (e.g. Clinical Pathology Accreditation) drawn into orbit of audit committee. Clear and regular assessment of independence of auditors. AGS is a mature and accurate reflection of the internal control mechanisms	N/A
Working methods	Lvl 3 'Firm Progress'	Written summary of key assurance and other key points provided to board. Systematic forward look at agendas. Annual programme related to material areas eg BAF, significant risk areas, etc	N/A
Skills and experience	2x Lvl 3 1x Lvl 4 'Firm Progress'	Committee experience includes at least one member with each of the following: 1) relevant professional qualification 2) experience at board level in two significant organisations 3) experience of formal audit/ accreditation/quality processes	Matrix indicates that a clinical member is required to meet level 4 (noting that SQC Chair is a member)

7.1 Internal Audit Comment

Internal Audit have reviewed the annual report and provided the following comment:

The AAC Report appears to be a fair reflection of the Committee's operation during the period covered. In particular the use of the three lines of defence model and the cyclical reviews of the Assurance Map have been helpful in shining a light on a wider range of areas and ensured a more comprehensive focus than is sometimes seen in similar committees elsewhere. Whilst directors are encouraged to attend where there are reports or relevant topics for which they are responsible, much of the response from the Executive still comes from the Director of Finance. Whilst this provides a good corporate response, we would encourage more input from other directors at selected times.

We agree with the conclusions drawn in the report but would caution not to allow a slackening of the core role which the Committee performs strongly if Foundation Trust progress is made – this should not become a distraction to the underlying core assurances required

8. Challenges for 2016

Mindful of the possible impact on the AAC and Boards function should the Trust achieve its ambition to become a foundation Trust. The AAC has identified the following as main challenges for 2016:

- 1) Continuing to seek and provide assurance of the Trust's financial controls and alignment to plans in a period of increasing national financial uncertainty and challenge. In particular the Trust's working capital and the going concern.
- 2) Provide suitable assurance to the Board to support the Trust's Foundation Trust Application (particularly Historical Due Diligence) and Board assurance.
- 3) Improve working linkages with the Board and other sub-committees to provide focused assurance aligned to the Board's needs.
- 4) Develop ways of working with the Shadow Council of Governors, in particular the function of the Trust Audit Panel.

9. Conclusion

The Board can be assured that the Audit and Assurance Committee is meeting its terms of reference and is working towards best practice of a mature audit committee

The AAC provides robust challenge and gains assurance on the Trust's internal controls, risk management systems, accounts and annual report.

The AAC gains and reviews assurance in a method that fits with best practice by considering multiple levels and types of assurance.

Paul Biddle,
Non-Executive Director, Chair of Audit & Assurance Committee
January 2016

Appendices

Audit and Assurance Committee: Terms of Reference

1. Introduction

- 1.1 These terms of reference build on the work of the Cadbury Committee, Greenbury Reports and the reports by Smith, Higgs and Turnbull (reference “Combined Code – Principles of Good Governance and Code of Best Practice”) and subsequent guidance and best practice in the private and public sector. They reflect the particular nature of audit committees in the NHS and the growing role of the committee in developing integrated governance arrangements and providing assurance that bodies are well managed across the whole range of their activities.

2. Constitution

- 2.1 The Board hereby resolves to establish a committee of the Board to be known as the Audit and Assurance Committee (The Committee).
- 2.2 The Committee is a non-executive committee of the Board and has no executive powers, other than those specifically delegated in these terms of reference.

2. Membership

- 3.1 The Committee shall be appointed by the Board from the non-executive directors of the Trust and shall consist of not less than three members.
- 3.2 A quorum shall be two members.
- 3.3 The Board will appoint one of the members to be Chair of the Committee.
- 3.4 The Chairman of the organisation shall not be a member of the Committee.

4. Attendance

- 4.1 The Chief Finance Officer and the Director of Corporate Affairs and appropriate internal and external Audit representatives shall normally attend meetings. However, at least once a year the Committee should meet privately with the external and internal auditors.
- 4.2 The Committee shall request the attendance of the Executive Directors when discussing risk or requiring assurance in relation to their areas of responsibilities.
- 4.3 As Accountable Officer, the Chief Executive has an open invitation to attend each Board sub-committee
- 4.4 The Corporate Governance Manager shall be the secretary to the Committee and shall attend to take minutes of the meeting and provide appropriate support to the Chairman and committee members.

5. Frequency

- 5.1 Meetings shall be held not less than five times a year and normally will take place every two months.
- 5.2 The External Auditor or Head of Internal Audit or Counter Fraud may request of the Chair a meeting is held if they consider that one is necessary.

6. Authority

- 6.1 The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.
- 7.1 The Committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of persons external to the Trust with relevant experience and expertise if it considers this necessary.

7. Duties

The duties of the Committee can be categorised as follows:

7.1 Governance, Risk Management and Internal Control

- 7.1.1 The Committee shall review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the organisation's activities (both clinical and non-clinical), which supports the achievement of the organisation's objectives. In particular, the Committee will review the adequacy of:
- all risk and control related disclosure statements (in particular the Annual Governance Statement and declarations of compliance with the Care Quality Commission (CQC) regulations, together with any accompanying Head of Internal Audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Board
 - the underlying assurance processes that indicate the degree of the achievement of corporate objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements
 - the policies for ensuring compliance with relevant Care Quality Commission regulatory frameworks, legal and code of conduct requirements
 - the policies and procedures for all work related to fraud and corruption as set out in Secretary of State Directions
 - clinical governance, patient safety and clinical risk using clinical audit and other assurance routes.
- 7.1.2 In carrying out this work the Committee will primarily utilise the work of internal audit, external audit and other assurance functions (for example the Trust's clinical audit function) to ensure review is external, but will not be limited to these. It will also seek reports and assurances from directors and managers as appropriate, concentrating on the overarching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.

- 7.1.3 In relation to the Board Assurance Framework the committee will use this to guide its work and will provide assurance that the controls and actions taken to address any gaps are robust and support the delivery of corporate objectives.

7.2 Internal Audit

The Committee shall ensure there is an effective internal audit function established by management, which provides appropriate independent assurance to the Audit Committee, Chief Executive and Board and meets mandatory Public sector Internal Audit Standards. This will be achieved by:

- consideration of the provision of the internal audit service and the cost of audit
- review and approval of the internal audit strategy, operational plan and the more detailed programme of work, ensuring this is consistent with the audit needs of the organisation as identified in its approved assurance framework
- consideration of the major findings of internal audit work (and management's response), and ensure co-ordination between the internal and external auditors to optimise audit resources
- ensuring the internal audit function is adequately resourced
- annual review of the effectiveness of internal audit (through external audit and performance against its work plan and performance indicators).

7.3 External Audit

The Committee shall review the work and findings of the External Auditor appointed by the Audit Commission and consider the implications and management's responses to their work. This will be achieved by:

- consideration of the appointment and performance of the External Auditor, as far as the Audit Commission's rules permit
- discussion and agreement with the External Auditor, before the audit commences, of the nature and scope of the audit as set out in the annual plan, and ensure coordination, as appropriate, with other external auditors in the local health economy
- discussion with the External Auditors of their evaluation of local audit risks and assessment of the Trust and its associated impact on the audit fee
- review all External Audit reports, including agreement of the annual audit letter before submission to the Board and any work carried outside the annual audit plan, together with the appropriateness of management responses

7.4 Other Assurance Functions

- 7.4.1 The Committee shall review the findings of other significant assurance functions, both internal and external to the organisation, and consider the implications to the governance of the organisation. These will include, but will not be limited to, any reviews by Department of Health Arms Length Bodies or Regulators/Inspectors (e.g. CQC, NHS Litigation Authority, etc.), professional bodies with responsibility for the performance of staff or functions (e.g. Royal Colleges, accreditation bodies, etc.), reports by the Trust's local counter fraud specialist.
- 7.4.2 In addition, the Committee will review the work and function of other committees, working groups and senior responsible officers within the organisation, whose work can provide relevant assurance to the Committee's own scope of work.
- 7.4.3 In reviewing work of around clinical risk management, the Committee will wish to satisfy itself on the assurance that can be gained from the clinical audit function and outcome measures from the Trusts clinical benchmarking systems.

8. Management

The Committee shall request and review reports and positive assurances from directors and managers on the overall arrangements for governance, risk management and internal control. They may also request specific reports from individual functions within the organisation (e.g. clinical audit) as appropriate.

9. Financial Reporting

- 9.1 The Committee shall review the annual report and financial statements before submission to the Board, focusing particularly on:
- the wording in the Annual Governance Statement and other disclosures relevant to the terms of reference of the Committee
 - changes in, and compliance with, accounting policies and practices
 - unadjusted mis-statements in the financial statements
 - major judgmental areas
 - significant adjustments resulting from the audit
- 9.2 The Committee should also ensure (through management reporting, internal and external audit reporting) the systems for financial reporting to the Board, including those of budgetary control, are effective and that reporting provides complete and accurate information about the Trust's financial position.

10. Reporting

- 10.1 The minutes of the Committee meetings shall be formally recorded by the Trust Secretary and submitted to the Board. The Chair of the Committee shall draw to the attention of the Board any issues that require disclosure to the full Board, or require executive action.
- 10.2 The Committee will report to the Board annually on its work in support of the Annual Governance Statement, specifically commenting on the fitness for

purpose of the assurance framework, the completeness and embedding of risk management in the organisation, the integration of governance arrangements and the appropriateness of the self-assessment of provider compliance with CQC regulations.

11. Other Matters

The Secretary to the Committee, whose duties in this respect will include the following, shall support the Committee administratively:

- Agreement of agenda with Chairman and attendees and collation of papers
- Organising the attendance of appropriate persons to meetings (other than those who would usually attend)
- Taking the minutes and keeping a record of matters arising and issues/ actions to be carried forward
- Advising the Committee on pertinent matters

Audit and Assurance Committee: Standing Agenda

1 General Business

Apologies
Declaration of interests
Minutes of previous meeting
Agreed actions tracker

2 Risk Management

Board Assurance Framework
Risk Management Systems

3 Internal Control Systems

Review annual governance statement
Review internal controls
Note business of other committees

4 Specific Duties

Review annual accounts
Reviews losses waivers and special payments

5. Independent Assurance

Receive and approve annual internal audit plan and updates
Receive and approve annual external audit plan and updates
Receive and approve other sources of external assurance
(Counter Fraud)

6 Specific Duties

Review of other reports and policies as appropriate (e.g. changes to standing orders)
Review of audited annual accounts and financial statements
Review changes to standing financial instructions and changes to accounting policies

Audit and Assurance Committee: Meeting Timetable

The meetings shall occur at regular intervals throughout the year and shall receive reports in a sequence that allows the Committee to review annual reports with foresight of other relevant assurance reports. The expected timetable of the Committee is set out below:

Audit and Assurance Committee Timetable

	March	May	July	Sept	Nov	Jan
1. Plan how to discharge Audit Committee duties						✓
2. Self-assess Committee's effectiveness				✓		
3. Review Committee's terms of reference			✓			
4. Produce annual Audit Committee report			✓			
5. Private discussions with internal and external audit	✓	✓	✓	✓	✓	✓
Risk Management						
6. Review the Board Assurance Framework in Full					✓	
7. Review the Assurance Framework in sections		✓	✓	✓		✓
8. Review the risk management system in full					✓	
9. Receive the Significant Risk Register		✓	✓	✓		✓
Internal Control Systems						
10. Note business of other committees and review inter-relationships	✓			✓		
11. Review draft Statement on Internal Control	✓					✓
12. Review Internal Controls and work plan			✓			
13. Review risks and controls around financial and asset management		✓				
14. Review risks and controls around information governance and data quality			✓			
15. Review risks and controls around corporate and legal objectives				✓		
16. Review risks and controls around clinical governance					✓	

17. Review risks and controls around patient experience ✓

18. Review risks and controls around workforce ✓

Specific Duties

19. Review of other reports and policies as appropriate – for example, changes to standing orders ✓ ✓

20. Review of audited annual accounts and financial statements ✓ ✓

21. Review changes to standing financial instructions and changes to accounting policies ✓ ✓ ✓

22. Review of losses and special payments ✓ ✓

Independent Assurance

23. Receive sources of assurance of external assurance ✓ ✓ ✓ ✓

24. Review and approve annual internal audit plan ✓ ✓

25. Review and approve internal audit terms of reference ✓

26. Review the effectiveness of internal audit ✓

27. Review internal audit progress reports ✓ ✓ ✓ ✓ ✓

28. Receive annual internal audit report and associated opinions ✓ ✓

29. Agree external audit plans and fees ✓ ✓

30. Review the effectiveness of external audit ✓

31. Review external audit progress reports ✓ ✓ ✓ ✓ ✓

32. Receive the External Auditor's report to those charged with governance ✓

33. Receive the External Auditor's annual audit letter ✓

34. Review and approve annual counter fraud plan ✓

35. Review counter fraud progress reports ✓ ✓ ✓ ✓ ✓

36. Review the organisation's assessment against CFSMS qualitative assessments ✓

37. Review the effectiveness of the Local Counter Fraud Specialist ✓

38. Receive counter fraud annual report to AAC ✓