

## TRUST BOARD REPORT – 29<sup>th</sup> January 2017 AUDIT & ASSURANCE COMMITTEE ANNUAL REPORT 2016/17

### 1. Purpose

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

### 2. Context

The purpose of the Committee 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 Audit Committee;*
- 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 Committee 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. Committee Activity during 2016

During 2016 the Committee 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:

- Review and awarding of the Trust's External Audit provider for 2017/18 onwards.
- Audit of annual accounts by External Audit commented on the quality of the accounts without any recommendations and the Trust's "Quality Account" which provided strong assurance on financial management and the preparation of accounts.
- In its review of annual accounts External audit made an adverse comment on value for money.
- The Trust's reference cost audit carried out by PWC had provided assurance that these had been prepared in accordance with the Costing Guidance issued by Monitor for 2014/15.
- Effective review and signoff of the annual governance statement and annual report as part requirements of the annual accounts.

- Regular review and challenge of BAF and Significant Risks register and their processes which have identified improvements to the detail and accuracy of both board papers.
- Regular review of management's self-assessment of internal controls.
- Reviews of Internal Audit and CFSMS have provided assurance of Trusts controls and the support these services provide. Internal Audit presented their work through the year which detailed improvements in internal controls to support oversight of NICE compliance, provider to provider activities and Duty of Candour systems.
- Management and completion of Internal Audit recommendations which has been positive throughout the year. In particularly focusing on assurances to previous concerns such as the management of temporary staff.
- Overseen the smooth transition of counter fraud services.

#### **4. The Board Assurance Framework**

The Committee 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 committee activity.

In particular during this period of national financial challenge the Committee has regularly tested management's assessment of financial risk and control systems which have led to robust conversations with challenge from members of the Committee, external opinion from Internal and External Audit and assurances from Management. The Committee has also tested other elements of the BAF such as workforce and has started to test and describe how the implications of the STP could be recorded and assessed.

The Board Assurance Framework was reviewed in year by Internal Audit. This provided areas of assurance relating to narrative that supports elements of risk and areas for improvement. Elements of the Trust's management of the BAF were included in the last review on the Foundation Trust Network's best practice guide 'The foundations of good governance'.

#### **5. Ways of Working**

The committee 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 committee 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 Committee; the quorum necessary for the transaction of business shall be two.

Attendance throughout the year is has been as follows:

Member	Jan 16	Mar 16	Apr 16	May 16	Jul 16	Sep 16	Nov 16
Paul Biddle (Chair)	√	√	√	√	√	√	√
Richard Durban	√	√	√	√	A	√	√
Richard Shaw	√	√	√	√	√	√	√
* = Acting Committee Chair, A = Apologies received							

As discussed below in the self-assessment of maturity, the main area which the committee 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 Committee sits between the Board and other Board sub committees as a vehicle to both seek and provide assurance to the Board.

As such the committee receives reports from SQC and FWC on internal controls, updates on Internal Audit audits and BAF risks. These are challenged and form regular sections of the Committee Chairs update report to the Board.

## 6. Sources of assurance

The Committee 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 committee has reviewed assurances from all three lines of defence to gain balanced insight and assurance.

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

- The Board Assurance Framework and SRR.
- Managements review of internal controls throughout the year
- Sound management of financial risk that evidences dynamic adaption to meet local and national changes.
- Reports from the finance team on loses and compensation and amendments to SFIs and review of accounting policies.
- Reports from Internal Audit and Counter Fraud services which provide assurance and through discussion benchmarking information.
- Reports from External Audit which provide assurance, benchmarking and emerging national themes and issues.
- The annual accounts, annual report and annual governance statement.

## 7. Challenges for 2017

The Committee has identified the following as main challenges for 2017:

- 1) Ensuring maintenance of controls during a challenging and changing financial situation.
- 2) To challenge and seek assurance that robust contracts are established with the CCGs based on payment by results.

- 3) To continue to build on the assurance that effective operational HR processes have been put into place.
- 4) To gain assurance of the controls and governance of external factors which could have significant impact on the Trust.

The AAC will continue on focus on gaining assurance on the application of controls for critical systems. It will also seek to gain assurance that there is an effective handover of External Audit at the transition of service provider.

### **8. 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 Committee provides robust challenge and gains assurance on the Trust's internal controls, risk management systems, accounts and annual report.

The Committee 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 2017**

## Appendices

### Audit and Assurance Committee: Terms of Reference

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#### **1. Introduction**

- 1.1 The AACs role is to develop, monitor and ensure development of integrated governance arrangements, providing assurance that bodies are well managed across the whole range of their activities. The AAC 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. 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.

#### **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, 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 Head of Corporate Governance 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 representatives may request a meeting is held if they consider that one is necessary. This is to be agreed by the Chair of the Committee.

## **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,, 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 national 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
- the Trust's internal control framework, supported by the other subcommittees of the Board.

7.1.2 In carrying out this work the Committee will primarily utilise the work of internal audit, external audit and other assurance functions 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 Board has appointed the Audit Committee as its Audit Panel which will review and make a recommendation to the Trust Board on selection of external audit provision. The Chief Finance Officer or the Director of Corporate Affairs will provide support to the Committee to undertake this process.

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:

- As the Audit Panel the Committee shall carry out ongoing review of External Audit service provision.
- 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.

## **11. Other Matters**

The Secretary to the Committee shall be the Head of Corporate Governance 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