

**TRUST BOARD**  
**26<sup>th</sup> May 2016**

<b>AGENDA ITEM NUMBER</b>	7.2	
<b>TITLE OF PAPER</b>	Audit Committee Annual Report	
Confidential		
Suitable for public access	√	
<b>PLEASE DETAIL BELOW THE OTHER SUB-COMMITTEE(S), MEETINGS THIS PAPER HAS BEEN VIEWED</b>		
This report was reviewed and approved at the Audit Committee meeting held on 19 <sup>th</sup> May 2016.		
<b>STRATEGIC OBJECTIVE(S):</b>		
Best outcomes	√	
Excellent experience	√	
Skilled & motivated teams	√	
Top productivity	√	
<b>EXECUTIVE SUMMARY</b>	<p>As a formal sub-committee of the Trust Board the Audit Committee presents its Annual Report to the Trust Board for noting.</p> <p>The attached report was approved at the Audit Committee meeting held on 19<sup>th</sup> May 2016 and summarises the key areas of activities over the last year in discharging its duties under its approved Terms of Reference.</p> <p>The Head of Internal Audit opinion for 2015/16 gave Reasonable Assurance that there is a generally sound system of internal control within the Trust. As this is a change from last years' opinion of Substantial Assurance the Committee has asked TIAA to review this and provide further information on its assessment.</p> <p>At the March 2016 meeting of the Committee it was agreed that:</p> <ul style="list-style-type: none"> <li>• the internal audit contract should be renewed for the second of its two one year extensions permitted under the tender;</li> <li>• LCFS services were also renewed with TIAA for another year; and</li> <li>• recommendation would be made to the Council of Governors at its June 2016 meeting that the contract with KPMG be extended for the final year allowable under the tender to cover the 2016/17 financial year.</li> </ul>	
<b>RECOMMENDATION</b>	Receive and note the paper	
<b>SPECIFIC ISSUES CHECKLIST:</b>		
Quality and safety		

Patient impact	
Employee	
Other stakeholder	Discussed at Audit Committee meeting with internal and external auditor attendance.
Equality & diversity	
Finance	
Legal	
Link to relevant Board Assurance Framework Principle Risk	The Board is assured by the scrutiny provided by the Audit Committee on matters of risk and in respect of the scrutiny on the work undertaken to support the Trust's Annual Governance Statement
<b>AUTHOR NAME/ROLE</b>	Paul Doyle, Deputy Director of Finance Terry Price, Non-Executive Director and Committee Chair Please approach for any further information required.
<b>PRESENTED BY DIRECTOR NAME/ROLE</b>	Terry Price, Non-Executive Director and Committee Chair
<b>DATE</b>	19 <sup>th</sup> May 2016
<b>TRUST BOARD ACTION</b>	Receive

**TRUST BOARD**  
**26<sup>th</sup> May 2016**

**Annual Report of the Audit Committee to the Trust Board**

**Introduction**

The NHS Audit Committee Handbook 2014 states as part of best practice that the Audit Committee should prepare an annual report on its work and performance in the preceding year for consideration by the Trust Board. This report summarises the Audit Committees deliberations for the last year.

**Overview of Committee**

The Audit Committee is a formal sub-committee of the Trust Board with defined Terms of Reference. The Terms of Reference of the Committee were reviewed in accordance with the NHS Audit Committee Handbook 2014 in July 2014 and were ratified by the Trust Board at its meeting held on 31<sup>st</sup> July 2014. At that time the Committee completed and reviewed checklists Committee Processes and Committee Effectiveness as part of this process.

The review of the Terms of Reference during the year was deferred due to the ongoing merger discussions.

**Membership and Meetings**

There were four meetings in the period covered by this report (June 2015 to May 2016) all of which were quorate.

The membership of the Audit Committee, and attendance, has been as follows: -

<u>Member</u>	<u>Title</u>	<u>Attendance</u>
Terry Price (Chair)	Non-Executive Director	4/4
Clive Goodwin	Non-Executive Director	3/4
Nadeem Aziz	Non-Executive Director	3/4

Other Non-Executive directors are welcome to attend the meetings with the exception of the Trust Board Chairman (as is normal practice).

The Committee invited the Trusts internal auditors TIAA, external auditors (KPMG) and Local Counter Fraud Specialist (TIAA) to present on their work during the year. Also invited to attend the meetings were the Chief Executive and Director of Finance and Information. The Committee is supported by the Deputy Director of Finance and Head of Financial Services who acts as Secretary to the Committee.

The Committee has had an opportunity to have private discussions with the internal and external auditors. During the year under review the Chair of the Committee met with the external auditors twice and they raised no matters of concern. In addition the Chair of the Committee and Deputy Director of Finance have pre-meets with TIAA prior to Audit Committee meetings.

## **Duties within the Terms of Reference**

The work of the Committee in discharging its duties under the Terms of Reference categories was as follows: -

### Governance, Risk Management and Internal Control

Through its scrutiny in 2015/16 the Committee received the draft Head of Internal Audit Opinion on the effectiveness of the System of Internal Control. Reasonable assurance was given that there is a generally sound system of internal control within the Trust, designed to meet the Trust's objectives, and that controls are generally being applied consistently. However it was noted that some weaknesses in the design and/or inconsistent application of control in the areas audited put the achievement of particular objectives at risk.

In 2015/16 a total of 78 (2014/15 73) recommendations were made of which 51 (2015/16 45) were classed as Urgent (5) or Important (46).

The Local Counter Fraud Specialist (LCFS), which is a service provided by TIAA, reported at all meetings and kept the Committee apprised of any irregularities or issues arising from counter fraud activities. The Committee has approved strategies and plans for countering fraud and approved a revised Counter Fraud and Corruption Policy in January 2016.

The Committee has reviewed the losses incurred and special payments made by the Trust in the year. These totalled £252,894 for the 2015/16 financial year and included bad debts which were considered at Committee meetings held on 22<sup>nd</sup> October 2015 and 24<sup>th</sup> March 2016. Also included was a loss incurred following a medical SpR pay error covering fifteen staff (£53,249) which was reviewed and approved by the Committee at its January 2016 meeting.

### Internal Audit

At each meeting the Committee receives details of recent internal audit work together with recommendations made and management responses. The Committee also receives at every meeting an update on the progress towards implementing medium and high level recommendations. The Committee Chair also meets separately on a quarterly basis, outside of the Audit Committee, to review actions against their specific reports.

The Committee has overseen and supported the work of Internal Audit through:

- agreeing the Audit Plan including the adequacy of coverage;
- considering the results of internal audit reviews; and
- reviewing and agreeing the Head of Internal Audit Opinion.

The Committee is satisfied that the delivery of the Internal Audit plan has given it assurance that controls are effective and action plans are developed for improvement.

In March 2016 the Committee, after due consideration, agreed to extend TIAA's internal audit contact for the second one year extension allowed under their contract. In addition the Committee agreed to extend the delivery of the LCFS service by TIAA for another year from 1<sup>st</sup> April 2016.

### External Audit

The Committee has:

- considered the scope and planning of the external audit through review of the external audit plan;
- considered and agreed fees and resources required for the 2015/16 audit;
- considered the key risks assessed by KPMG for inclusion in their long form audit opinion; and
- reviewed financial control related reports including the external auditors reports and the Annual Audit Letter (ISA260).

The Committee also receives updates from Trust Management on the progress towards implementing external audit recommendations.

The Committee has drawn confidence from the work of the external auditor in supporting its overall conclusions about internal control, financial reporting and the work of internal audit.

In June 2015 the Committee provided a report to the Council of Governors on the performance of the external auditors. In that report the Committee also agreed that it would recommend to the Governors that they extend KPMG's appointment for 2015/16 financial year.

At its March 2016 meeting the Committee agreed that it would recommend to the June 2016 meeting of the Council of Governors that the KPMG contract be extended for a further year, as allowed under the tender, to cover 2016/17.

The Committee noted the paper issued by Monitor on governance over audit, assurance and accountability: guidance for foundation trusts. From April 2015, NHS foundation trust auditors are required to follow an audit code issued by the National Audit Office (NAO) on behalf of the Comptroller and Auditor General. This applies to audit work in relation to 2015/16 onwards and replaces the audit code for NHS foundation trusts previously issued by Monitor.

### Other Assurance Functions

The Committee has considered its link into the work of the Quality and Performance Committee (previously the Integrated Governance Advisory Committee). There is commonality of membership between the two Committees, including the Chair of the Audit Committee, who verbally updates the Audit Committee with any issues from the Quality and Performance Committee. An exception report arising from Audit Committee meetings is presented to QPC. The minutes of both of these Committees are included as standing items on the Trust Board agenda.

In addition the Trust Risk Register is provided to the Audit Committee on an annual basis.

In January 2015 CHKS, on behalf of Monitor, carried out a Payment and Tariff Assurance Framework – 2014/15 coding and costing audit. The report was produced in June 2015 and the Committee reviewed the outputs and monitored implementation of its recommendations.

### Management

The Committee has obtained reports and assurances from Directors and managers on the overall arrangements for governance, risk management and internal control as necessary.

### Financial Reporting and Annual Report and Accounts

The Committee has reviewed the timeline for the production of the Trust's Annual Report and Accounts, including the Quality Report.

At its March 2016 meeting the Trust accounting policies were reviewed and approved and it was agreed that the non-consolidation of the Trust's charity accounts into the main Trust accounts would continue.

A Committee meeting was held on 19<sup>th</sup> May 2016 to consider:

- the Annual Report and Accounts for 2015/16, including the wording of the Annual Governance Statement;
- the external auditors audit report ISA260 financial statements and quality report; and
- the management representation letters (which included schedules of adjusted and non-adjusted items following the audit of the accounts).

The Committee remains confident that the financial position of the Trust is reported fairly.

At its October 2015 meeting the Committee reviewed and approved the Charitable Funds Annual Report and Accounts 2014/15 prior to formal Trust Board approval.

### **Conclusion**

The Committee has complied with its Terms of Reference during the periods in which it has:

- received and approved the external auditors audit report (ISA260 financial statements and quality report) for 2015/16;
- reviewed the Head of Internal Audit Opinion for 2015/16 and confirmed that it has discussed the outputs with TIAA;
- reviewed the Annual Report and Accounts, including the Annual Governance Statement for 2015/16; and
- reviewed reports prepared by internal auditors, external auditors and the local counter fraud specialist, along with the ensuing management actions, where appropriate.

**Terry Price**  
**Audit Committee Chair**  
**May 2016**