



SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

EXECUTIVE SUMMARY REPORT
AUDIT COMMITTEE
ON
16 MAY 2017

Subject:	Audit Committee Annual Report
Supporting Director:	Sandi Carman, Assistant Chief Executive
Author:	Pete Tanker, Risk & Assurance Manager

PURPOSE OF THE REPORT:

The purpose of the report is to formally report to the Board of Directors on the work of the Audit Committee during 2016/17 and indicate its work plan for the financial year 2017/18

KEY POINTS:

The report notes the:

- Details of Audit Committee attendance
- Change of External Auditors from KPMG to Mazars
- Contribution of 360 Assurance including Internal Audit and the Anti-Crime Specialist
- Details of the work under taken for the year 2016/17
- Objectives and workplan for 2017/18
- Request for formal approval of the revised Terms of Reference

RECOMMENDATION(S):

The Audit Committee is asked to RECEIVE the report and APPROVE the changes to the Audit Committee Terms of Reference.

IMPLICATIONS²

AIM OF THE STHFT CORPORATE STRATEGY 2012-2017		TICK AS APPROPRIATE
1	Deliver the Best Clinical Outcomes	X
2	Provide Patient Centred Services	X
3	Employ Caring and Cared for Staff	X
4	Spend Public Money Wisely	X
5	Deliver Excellent Research, Education & Innovation	x

APPROVAL PROCESS

Meeting	Date	Approved Y/N

¹ Status: A = Approval
A* = Approval & Requiring Board Approval
D = Debate
N = Note

² Against the five aims of the STHFT Corporate Strategy 2012-2017

SHEFFIELD TEACHING HOSPITALS NHS FOUNDATION TRUST

Audit Committee Annual Report 2016/17 and 2017/18 Work Plan

1 Introduction

- 1.1 The purpose of the report is to formally report to the Board of Directors on the work of the Audit Committee during 2016/17 and indicate its work plan for the financial year 2017/18.
- 1.2 The Audit Committee reviewed and approved its Terms of Reference in October 2016 which are attached at Appendix 1 for approval by the Board of Directors.

2 Meetings

- 2.1 During 2016/17 the Audit Committee met on five occasions. All meetings were quorate.

2.2 Attendance by Audit Committee Members

Meeting date	Audit Committee Members		
	Tony Buckham	John O'Kane (Chair)	Dawn Moore (Vice Chair)
17/05/2016	✓	✓	✓
05/07/2016	✓	✓	✓
11/10/2016	✓	✓	✓
10/01/2017	✓	✓	APOL
07/03/2017	APOL	✓	APOL
% attendance	80%	100%	60%

It was known in advance that two of the members would be unable to attend the March Audit Committee as a result the meeting would not have been quorate. Annette Laban Non Executive Director and Ex-officio member of the committee attended and therefore the meeting was quorate.

Given the low number of Non-executive Directors on the Audit Committee it is proposed that the Chairs of the Committees of the Board of Directors are offered a standing invitation as a formal member of the Committee. This will ensure that quoracy is maintained, supporting the effective management of the Committee business and oversight for the Trust.

The attached Terms of Reference have been updated to this effect and require approval by the Audit Committee and the Board of Directors.

- 2.3 The following routinely attended Audit Committee meetings during 2016/17:

STHFT: Director of Finance; Deputy Director of Finance (Financial Accounting); Assistant Chief Executive; Risk & Assurance Manager.

360 Assurance (Internal Audit): Deputy Director; Client Manager; Local Counter Fraud Specialist

KPMG (External Audit): Engagement Audit Partner, Audit Manager (until 5th July 2016)

Mazars (External Audit): Engagement Audit Partner, Audit Manager (wef 11th October 2016)

- 2.4 The Audit Committee's Minutes are submitted to the Board of Directors, supported by a verbal report given by the Committee Chair. Items to be highlighted to the Board of Directors, is a standing item on the Audit Committee agenda.
- 2.5 Chairs of the Board Committees also meet on a regular basis.

3. **Work undertaken 2016/17**

The Committee dealt with the following matters:

- Going Concern concept (verbal update given in January 2017 and a paper in March 2017). The Committee agreed that the 2016/17 Annual Accounts be prepared on a "going concern basis".
- Accounting Policies for completion of 2016/17 Financial Statements paper, including the appropriate accounting treatment for Charitable Funds, received and approved (January 2017).
- Process and timetable for approval of 2016/17 Financial Statements and Annual Report paper received and approved (January, 2017).
- Statutory Financial Statements and Annual Report and Accounts 2015/16 (including the Quality Report) received and approved by the Committee prior to being submitted to the Board of Directors for final approval (May 2016).
- Internal Audit Annual Report including the Head of Internal Audit Opinion received and noted. He report found significant assurance on the Trust's system of internal controls (May 2016).
- External Audit Annual Governance Report (ISA 260) including the Letter of Representation and Audit Opinion received and noted (May 2016). The report was subsequently presented to the Council of Governors (September 2016).
- External Audit External Assurance Report on the 2015/16 Quality Report received and noted (May 2016). The report was subsequently presented to the Council of Governors (September 2016).
- Losses and Compensations Report received and noted (July 2016).
- Audit Committee 2016/17 Annual Report and 2017/18 Work Plan and Terms of Reference received and approved (May 2017).
- Local Counter Fraud Services progress reports were received and noted (all meetings except May 2016);
- The Committee received and approved the Draft 2017/18 Fraud, Bribery and Corruption Risk Assessment and Work Plan (March 2017).
- The Committee received the 2015/16 Annual Counter Fraud Report (July 2016)
- The 2015/16 Counter Fraud Survey Report was received and noted (July 2016)
- Single Tender Waiver Reports received and noted (all meetings except May and July 2016).
- Registers of Gifts and Hospitality reports received and noted (all meetings except May 2016).
- 2016/17 Audit Strategy Memorandum received and approved (January 2017).
- 2016/17 External Audit/Internal Audit Protocol for Liaison received and noted (January 2017)
- Internal Audit Progress Reports received and noted (all meetings except May 2016).

- Progress Report against the Action Plans for D and E Grade audits¹ (The grading of Audit Reports changed to Full Assurance, Significant Assurance and Limited Assurance) were received and noted in July 2016 and March 2017. The following audit was discussed and actioned as appropriate:
- Data Quality – Baseline Assessment
- External Audit Progress Reports received and noted (all meetings except May 2016).
- Insurance Arrangements Annual Report 2016/17 received and noted (January 2017).
- Integrated Risk and Assurance Report – discussed at all meetings except May 2016.
- Risk Management Annual Report was received and noted (July 2016).
- A review of Internal Audit Service was undertaken and outcome reported to the Committee (July 2016).
- The Trust undertook a tender exercise for External Audit Services during February 2016 and July 2016. The outcome of that process was reported to the Committee in July 2016 and a recommendation was made to the Council of Governors to appoint Mazars as the Trust's External Auditors with effect from 1st October 2016 for a period of three years with an option to extend by two years. The Council of Governors approved the recommendation at their meeting on 13th September 2016
- Discussions with NHSLA regarding the Property Expenses Scheme were discussed at the July and October 2016 meetings.
- The Committee received and noted declarations of interests declared by staff. (January 2017)
- The Committee received and noted the Single Oversight Framework (NHS England) (October 2016)
- The Committee received and noted the Managing Conflicts of Interests in the NHS: A Consultation (NHS England) (October 2016).
- The Committee noted the key requirements and received an update of progress towards compliance of the Managing Conflicts of Interests in the NHS (March 2017).
- The Committee approved the publication of the Trust's Register of Interest on the Trust website (March 2017)
- The Committee discussed the Code of Business Conduct including Declaration of Interest, Gifts, Hospitality and Sponsorship (March 2017)
- The Committee received an update on the Review of Standing Financial Instructions and Scheme of Delegations (March 2017)

3 2017/18 Work Plan

The 2017/18 Work Plan is detailed in Appendix 2. Please note that meeting dates for 2018 have not yet been agreed.

4 Audit Committee Effectiveness

The Committee reviewed and approved the Terms of Reference in October 2016, the version attached to this report have been updated in line with recent decisions of the

¹ Internal Audits are graded. Full Assurance, Significant Assurance and Limited Assurance. Limited Assurance indicates the presence of medium-high risks/ internal control weaknesses, where immediate action is required. E grading denotes systems which contain significant risks requiring immediate attention and reporting to management.

Board of Directors and national changes. Most notably this version recognises the creation of an additional Committee focusing on Human Resources and Organisational Development.

The Committee approved the following objectives in March 2017:

1 The Audit Committee to act as a project owner for the Integrated Risk and Assurance Project. The Assurance element will be a focus in 2017/18, for example further development relating to NHSI Single Oversight Framework outputs and relevant CQC requirements.

2 - That the Audit Committee oversees the effective development and implementation of the revised risk arrangements whereby Board Committees and TEG give appropriate consideration to the risks which fall within their particular purview as part of the IRAR.

3 – That the Audit Committee develops it's thinking for discussion with others as appropriate concerning how risks should be managed at a strategic level across the Trust in an increasingly uncertain time. In particular the Audit Committee will consider its role and contribution on this issue.

4 - That the Audit Committee over the course of 2017/18 seeks assurance of the effectiveness of the governance arrangements for the Working Together Acute Federation Partnership and the Sustainability and Transformation Plan working arrangements.

This will include a review of the Board awareness and engagement in the decision-making processes and the effectiveness of those processes

Conclusion

The Audit Committee continues to play an important role in the governance and continued success of the Trust.

John O'Kane
Chair
May 2017



TERMS OF REFERENCE

AUDIT COMMITTEE

1. PURPOSE

The Audit Committee has overall responsibility for the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the Trust's activities (both clinical and non-clinical), that supports the achievement of the Trust's objectives.

2. DUTIES / RESPONSIBILITIES

The Committee is authorised by the Board of Directors to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any member of staff and all members of staff are directed to co-operate with any request made by the Audit Committee. The Committee is authorised by the Board of Directors to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

The duties of the Audit Committee can be categorised as follows:

2.1 Governance, Risk Management and Internal Control

2.1.1 The Audit Committee shall review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the Trust's activities (both clinical and non-clinical), that supports the achievement of the Trust's objectives.

2.1.2 In particular, the Audit Committee will review the adequacy of:

- all risk and control related disclosure statements (in particular the Annual Governance Statement, Quality Report and Board Statements including the Corporate Governance Statement) and declarations of compliance with the Care Quality Commission's standards for all regulated activities across all registered locations, together with any accompanying Head of Internal Audit statement, external audit opinion or other appropriate independent assurances, prior to endorsement by the Board of Directors
- the underlying assurance processes that indicate the degree of the achievement of corporate objectives, the effectiveness of the management of principal risks as reported in the Integrated Risk and Assurance Report, and the appropriateness of the above disclosure statements

- The policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements.
- The policies and procedures for all work related to fraud and corruption as set out in the Secretary of State Directions and as required by NHS Protect.

2.1.3 In carrying out this work the Audit Committee will primarily utilise the work of Internal Audit, External Audit and other assurance functions, but will not be limited to these audit functions. 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.

2.1.4 This will be evidenced through the Audit Committee's use of an effective Integrated Risk and Assurance Report to guide its work, and that of the audit and assurance functions that report to it.

2.2 Internal Audit

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

- consideration of the provision of the Internal Audit service, the cost of the audit and any questions of resignation and dismissal
- review and approval of the Internal Audit and Counter Fraud strategy, operational plan and more detailed programme of work, ensuring that this is consistent with the audit and counter fraud needs of the Trust as identified in the Assurance Framework. The Audit Committee shall formally involve the Healthcare Governance Committee and the Finance, Performance and Workforce Committee in the review and approval process.
- consideration of the major findings and recommendations of Internal Audit work, (including monitoring management's responsiveness), and ensure co-ordination between the Internal and External Auditors to optimise audit resources
- ensuring that the Internal Audit function is adequately resourced and has appropriate standing within the organisation
- annual review of the effectiveness of Internal Audit
- review of the Annual Counter Fraud Report

2.3 External Audit

2.3.1 The Audit Committee shall review the work and findings of the External Auditor appointed by the Trust's Council of Governors 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, in accordance with the Trust specification for an external audit service, informed by Monitor's *Audit Code for NHS Foundation Trusts*.
- 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 local evaluation of audit risk and assessment of the Trust and associated impact on the audit fee
- review all External Audit reports, (including the ISA 260 Report before submission to the Board and the External Assurance on the Trust's Quality Report before submission to the Council of Governors) and any work carried outside the annual audit plan, together with the appropriateness of management responses

2.4 Other Assurance Functions

2.4.1 The Audit Committee shall review the findings of other significant assurance functions, both internal and external to the Trust, and consider the implications to the governance of the Trust. These will include, but will not be limited to, any reviews by Department of Health Arms Length Bodies or Regulators/Inspectors (e.g. NHS Improvement, Care Quality Commission, NHS Resolution), professional bodies with responsibility for the performance of staff or functions (e.g. Royal Colleges, accreditation bodies, etc.)

2.4.2 In addition, the Audit Committee will review the work of other committees within the Trust, whose work can provide relevant assurance to the Committee's own scope of work. This will particularly include the Healthcare Governance, Finance, and Performance and the Human Resources and Organisational Development Committees..

2.4.3 In reviewing the work of the Healthcare Governance Committee, and issues around clinical risk management, the Audit Committee will wish to satisfy themselves on the assurance that can be gained from the clinical audit function.

2.4.4 The Audit Committee shall receive details of Single Tender Waivers as approved by the Chief Executive.

2.4.5 The Audit Committee shall receive a schedule of losses and compensations and approve appropriate write-offs.

2.4.6 The Audit Committee shall review the Registers of Gifts and Hospitality.

2.5 Management

2.5.1 The Audit Committee shall request and review reports and positive assurances from directors and managers on the overall arrangements for governance, risk management and internal control.

2.5.2 They may also request specific reports from individual functions within the organisation (e.g. clinical audit) as they may be appropriate to the overall arrangements.

2.6 Financial Reporting

2.6.1 The Audit 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

2.6.2 The Audit Committee should also ensure that the systems for financial reporting to the Board, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Board.

2.7 Special Assignments

2.7.1 The Audit Committee shall commission and review the findings of any special assignments required by the Board of Directors.

3. **ACCOUNTABLE TO**

The Audit Committee is a non-executive committee established by and accountable to the Board of Directors. It has no executive powers other than those specifically delegated in these Terms of Reference.

4. **REPORTS TO AND METHOD (INCLUDING MINUTES CIRCULATION)**

4.1 The minutes of Audit Committee meetings shall be formally recorded by the Assistant Chief Executive and submitted to the Board of Directors. The Chair

of the Committee shall draw to the attention of the Board any issues that require disclosure to the full Board of Directors, or require executive action.

- 4.2 The Audit Committee will present a written report to the Board of Directors annually on its work in support of the Annual Governance Statement, specifically commenting on the fitness for purpose of the Integrated Risk and Assurance Report, the completeness and embeddedness of risk management in the organisation, the integration of governance arrangements and ongoing compliance with the Care Quality Commission's Fundamental Standards of Quality and Safety for all regulated activities across all registered locations.

Circulation of Minutes:-

All attendees and members of the Board of Directors

5. MEMBERSHIP – NAME / DESIGNATION / CHAIR OR DEPUTY

➤ Members

NAME	DESIGNATION	CHAIR/DEPUTY
John O'Kane	Non Executive Director	Chair
Tony Buckham	Non Executive Director	
Dawn Moore	Non Executive Director	Vice Chair

➤ Members – Standing invitation

Annette Laban	Non-Executive Director and Chair of the Healthcare Governance Committee	
Martin Temple	Non-Executive Director and Chair of the Finance and Performance Committee	
Dawn Moore	Non-Executive Director and Chair of the Human Resources and Organisational Development Committee	

➤ In attendance

The following shall normally attend meetings:

NAME	DESIGNATION
Neil Priestley	Director of Finance
Julie Wright	Deputy Director of Finance – Financial Accounting
Sandi Carman	Assistant Chief Executive
vacant post	Risk and Assurance Manager
Tim Thomas	Head of Internal Audit, 360 Assurance
Simon Gascoigne	Associate Director (Audit Manager) 360 Assurance
Ruth Vernon	Client Manager, 360 Assurance
Claire Crofts	Local Counter Fraud Specialist, 360 Assurance
Cameron Waddell	Engagement Lead Mazars
Steve Appleton	Audit Manager Mazars

At least once a year, the Audit Committee may wish to meet privately with the External and Internal Auditors without any Executive Director being present.

➤ Standing Invitation

All members of the Board of Directors are eligible to attend.

The Chief Executive and other Executive Directors should be invited to attend particularly when the Audit Committee is discussing areas of risk or operation that are the responsibility of that director.

The Chief Executive should be invited to attend, at least annually, to discuss with the Audit Committee the process for assurance that supports the Annual Governance Statement.

➤ Serviced by

NAME	DESIGNATION
Sue Coulson	Business Manager, Board of Directors

➤ Lead Officer (If applicable)

NAME	DESIGNATION
Sandi Carman	Assistant Chief Executive

6. QUORUM

2 of the three members of the Audit Committee

7. MEETING FREQUENCY (MINIMUM IF APPLICABLE)

- Meetings shall be held not less than three times a year.
- The External Auditor or Head of Internal Audit may request a meeting if they consider that one is necessary.
- It is expected that members of the Audit Committee shall attend at least fifty percent of scheduled meetings in a calendar year.

8. DATE TERMS OF REFERENCE WERE APPROVED

October 2016
Updated in line with Board of Director decisions April 2017

9. REVIEW DATE

October 2017

10. PROCESS FOR REVIEWING EFFECTIVENESS

The effectiveness of the Audit Committee will be monitored on an annual basis via the following:

- Review of the Terms of Reference
- Annual report to the Board of Directors regarding progress with work programme
- Review of attendance rate of members
- Meeting of the chairs of the Audit Committee, the Healthcare Governance Committee, the Finance and Performance Committee, the Human Resources and Organisational Development Committee and the Assistant Chief Executive to review their respective roles in terms of risk and assurance

As a committee of the Board of Directors, the Audit Committee will be included in the external and independent review of Board governance which will be undertaken at least every three years, in accordance with NHS Improvements requirements.

11. REPORTING STRUCTURE

Members of the Audit Committee will receive the minutes of the Healthcare Governance Committee, Finance and Performance and Human Resources and Organisational Development Committee..

The Audit Committee will receive the annual report and annual work plans of the Healthcare Governance Committee and the Finance and , Performance and Human Resources and Organisational Development Committee.

AUDIT COMMITTEE – 2017/18 WORK PLAN

Item	Meetings				
	16/05/17	04/07/17	10/10/17	Jan 2018	Mar 2018
Adoption of Statutory Financial Statements and Annual Report 2016/17: <ul style="list-style-type: none"> • Annual Accounts • Annual Report including Quality Report and Remuneration Report • Annual Governance Statement 	x				
Board Committees Annual Reports 2016/17 and 2017/18 Work Plan	x				
Internal Audit Annual Report 2016/17 including Head of Internal Audit Opinion Statement	x				
External Audit ISA 260 Report 2016/17 (Governance Annual Report) and Limited Assurance report on 2016/17 Quality Report	x				
Limited Assurance Audits (progress against action plans)		x	x	x	x
Single Tender Waivers		x	x	x	x
Register of Hospitality		x	x	x	x
Register of Gifts		x	x	x	x
Register of Interests		x	x	x	x
Losses and Compensations Report	x				
Risk Management Annual Report		x			
Integrated Risk and Assurance Report (formerly Assurance Framework)		x	x	x	x
Review and approval of Terms of Reference			x		
Going concern paper				x	x
Process and timetable: 2017/18 Statutory Financial Statements and Annual Report (including Quality Report)				x	
2017/18 Accounting Policies and Approach				x	
Review of External Audit Services		x			
External Audit Progress Report including Technical Report		x	x	x	x
External Audit 2017/18 Plan			x		
Internal Audit Progress Report		x	x	x	x
Internal Audit 2018/19 Plan				x	x
Review of Internal Audit Services		x			
LCFS Annual Report 2016/17	x				
LCFS Progress Report		x	x	x	x
LCFS Plan 2018/19					x
2017/18 External Audit/Internal Audit Protocol for Liaison				x	
Insurance Arrangements – Annual Report				x	
Agree AC Objectives 2018/19					x