



## AUDIT COMMITTEE

### Annual Report 2014/15 and 2015/16 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 2014/15 and indicate its work plan for the financial year 2015/16.
- 1.2 The Audit Committee reviewed and approved its Terms of Reference in October 2014 which are attached at Appendix 1 for approval by the Board of Directors.

#### 2 Meetings

- 2.1 During 2014/15 the Audit Committee met on 5 occasions. All meetings were quorate.

##### 2.2 Attendance by Audit Committee Members

Meeting date	Audit Committee members					
	John Donnelly (Chair) [1]	John O’Kane (Chair) [2]	Dawn Moore [2]	Shirley Harrison	Vic Powell (Vice Chair)	Tony Weetman
22/05/2014	✓	-	-	✓	✓	✓
08/07/2014	✓	-	-	✓	✓	✓
07/10/2014	-	✓	APOL	✓	APOL	APOL
13/01/2015	-	✓	✓	✓	✓	✓
03/03/2015	-	APOL	✓	APOL	✓	APOL
% attendance	100	66	66	80	80	60

1 Term of Office ended 31/09/2014.  
2 With effect from 01/10/2015

- 2.3 The following routinely attended Audit Committee meetings during 2014/15:

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

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

KPMG (External Audit): Engagement Audit Partner, Audit Manager.

- 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.

### 3. Work undertaken 2014/15

The Committee dealt with the following matters:

- Going Concern concept (initial assessment paper received January 2015 and verbal updated assessment March 2015). The Committee agreed that the 2014/15 Annual Accounts be prepared on a “going concern basis”.
- Accounting Policies for completion of 2014/15 Financial Statements paper, including the appropriate accounting treatment for Charitable Funds, received and approved (October 2014).
- Process and timetable for approval of 2014/15 Financial Statements and Annual Report paper received and approved (January, 2015).
- Statutory Financial Statements and Annual Report and Accounts 2013/14 (including the Quality Report) received and approved by the committee prior to being submitted to the Board of Directors for final approval (May 2014).
- Internal Audit Annual Report including the Head of Internal Audit Opinion received and noted. The report found significant assurance on the Trust’s system of internal controls (May 2014).
- External Audit Annual Governance Report (ISA 260) including the Letter of Representation and Audit Opinion received and noted (May 2014). The report was subsequently presented to the Council of Governors (September 2014).
- External Audit External Assurance Report on the 2013/14 Quality Report received and noted (May 2014). The report was subsequently presented to the Council of Governors (September 2014).
- Losses and Compensations Report received and noted (July 2014).
- Audit Committee 2013/14 Annual Report and 2014/15 Work Plan and Terms of Reference received and approved (May 2014).
- Local Counter Fraud Services progress reports received and noted (all meetings except May 2014); 2014/15; 2015/16 Work Plan and Risk Assessment (March 2015).
- Single Tender Waiver Reports received and noted (all meetings except May 2014).
- Registers of Gifts and Hospitality reports received and noted (all meetings except May 2014).
- Risk-based Internal Audit Plan 2015/16 received and approved (January and March 2015).
- Risk-based External Audit Plan received and approved (October 2014) and updated in January 2015.
- Internal Audit Progress Reports received and noted (all meetings except May 2014).
- Progress Report against the Action Plans for D and E Grade audits<sup>1</sup> were received and noted in July 2014 and January 2015 only as progress reports were not required at the remaining meetings. The following audits were discussed and actioned as appropriate:
  - Estates Year End Expenditure (July 2014)
  - Use of Contractors in the Informatics Department (January and March 2015)
- External Audit Progress Reports received and noted (all meetings except May 2014).
- Insurance Arrangements paper received and noted (January 2015).
- Internal and External Audit Relationship paper including Protocol between Internal and External Audit received and noted (October 2014).
- Role and Function of the Audit Committee paper received and noted (July 2014 and March 2015)
- Bribery Act paper received and noted and action plan approved (October 2014)
- Governance Warning Triggers presentation (July 2014)
- External Audit – Benchmarking Reports paper received and noted (July 2014)
- Forming an Internal Audit Opinion (January 2015) paper received and approved. Implementation to be effective from 2015/16 plan audit reports.

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<sup>1</sup> Internal Audits are graded. D grading 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.

- NHS Protect Quality Inspection Report paper received and noted (January 2015, March 2015)
- PbR Clinical Coding Audit Report and Progress on Action Plan paper received and noted ( October 2014, January and March 2015)

### **3 2015/16 Work Plan**

The 2015/16 Work Plan is detailed in Appendix 2. Please note that meeting dates for 2016 have not yet been agreed.

### **4 Audit Committee Effectiveness**

The Committee reviewed and approved the Terms of Reference in October 2014. The Committee had discussed and approved plans to undertake a systematic evaluation of effectiveness in 2015/16 using guidance in the NHS Audit Committee Handbook (HFMA).

### **5 Conclusion**

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

John O'Kane  
Chair  
May 2015



proud to make a difference

## **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 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 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 Assurance Framework 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. Monitor, Care Quality Commission, NHS Litigation Authority), 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 Committee and the Finance, Performance and Workforce Committee.
- 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 judgemental 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 Assurance Framework, the completeness and embeddedness of risk management in the organisation, the integration of governance arrangements and ongoing compliance with the Care Quality Commission's Essential 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

<b>NAME</b>	<b>DESIGNATION</b>	<b>CHAIR/DEPUTY</b>
John O'Kane	Non Executive Director	Chair
Vic Powell	Non Executive Director	Vice Chair
Shirley Harrison	Non Executive Director	
Tony Weetman	Non Executive Director	
Dawn Moore	Non Executive Director	

➤ Ex officio Member

Annette Laban	Non-Executive Director and Chair of the Healthcare Governance Committee	
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➤ In attendance

The following shall normally attend meetings:

NAME	DESIGNATION
Neil Priestley	Director of Finance
Julie Wright	Deputy Director of Finance – Financial Accounting
Neil Riley	Assistant Chief Executive
Andy Challands	Assurance Manager
Tim Thomas	Head of Internal Audit, 360 Assurance
Simon Gascoigne	Associate Director (Audit Manager) 360 Assurance
Ruth Vernon	Client Manager, 360 Assurance
Robert Pursglove	Local Counter Fraud Specialist, 360 Assurance
Trevor Rees	Engagement Lead, KPMG
Ian Warwick	Audit Manager, KPMG

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
Neil Riley	Assistant Chief Executive

**6. QUORUM**

2 of the four 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**

7<sup>th</sup> October 2014

**9. REVIEW DATE**

October 2015

**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, Performance and Workforce 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 Monitor's Risk Assessment Framework.

**11. REPORTING STRUCTURE**

*(List of Groups/Committees which report to this Committee)*

Members of the Audit Committee will receive the minutes of the Healthcare Governance Committee and the Finance, Performance and Workforce Committee.

The Audit Committee will receive the annual report and annual workplans of the Healthcare Governance Committee and the Finance, Performance and Workforce Committee.

**AUDIT COMMITTEE – 2015/16 WORK PLAN**

Item	Meetings				
	19/05/15	07/07/15	13//10/15	Jan 2016	Mar 2016
Adoption of Statutory Financial Statements and Annual Report 2014/15: • Annual Accounts • Annual Report including Quality Report and Remuneration Report • Annual Governance Statement	x				
Board Committees Annual Reports 2014/15 and 2015/16 Work Plan	x				
Internal Audit Annual Report 2014/15 including Head of Internal Audit Opinion Statement	x				
External Audit ISA 260 Report 2014/15 (Governance Annual Report) and Limited Assurance report on 2014/15 Quality Report	x				
D & E Grade 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
Losses and compensations		x			
Risk Management Annual Report		x			
Integrated Risk and Assurance Report (formerly Assurance Framework)			x	x	x
Review and approval of Terms of Reference			x		
Going concern paper				x	x
Process and timetable: 2015/16 Statutory Financial Statements and Annual Report (including Quality Report)				x	
2015/16 Accounting Policies and Approach			x		
Review of External Audit Services		x			
External Audit Progress Report		x	x	x	x
External Audit – Technical Report		x	x	x	x
External Audit 2015/16 Plan			x		
Internal Audit Progress Report		x	x	x	x
Internal Audit 2016/17 Plan				x	x
Review of Internal Audit Services		x	x		
LCFS Progress Report		x	x	x	x
LCFS Annual Report 2014/15 and Plan 2016/17		x			x
Review of External Audit and Internal Audit joint working arrangements				x	
Insurance Arrangements – Annual Report				x	