Agenda Item 16

The Queen Elizabeth Hospital King's Lynn
NHS Foundation Trust

ANNUAL REPORT

COMMITTEE
Audit Committee
ANNUAL REPORT PERIOD
2016/17
CHAIR
Ian Pinches (Non-Executive Director)
REPORTED TO
The Board of Directors
REPORTED ON
23 May 2017

THE 2016/17 ANNUAL REPORT OF THE AUDIT COMMITTEE

1. INTRODUCTION

The Audit Committee is established under Board delegation with approved terms of reference that are aligned with the NHS Audit Committee Handbook, published and revised periodically by the Healthcare Financial Management Association (HFMA) and Department of Health. The Committee consists of non-executive directors, has met on five occasions in 2016/17 and has discharged its responsibilities for scrutinising the risks and controls which affect all aspects of the organisation's business.

During 2016/17, non-executive director, Ian Pinches has continued in office as Chair of the Audit Committee. Ian is a qualified accountant and has previous audit committee experience.

The aim of this report is to inform the Board concerning how the Audit Committee has met its terms of reference during 2016/17 and, in so doing, to provide the Board of Directors with evidence relevant to its responsibilities in respect of the Annual Governance Statement.

2. OVERVIEW

The Codes of Conduct and Accountability issued by the Audit Commission in 1994 set out the requirement for every NHS Trust to establish an Audit Committee. The existence of an independent Audit Committee is the central means by which a Board ensures effective control arrangements are in place.

The Audit Committee independently reviews, monitors and reports to the Board on the processes of governance, and where appropriate, facilitates and supports through its independence, the attainment of effective internal control systems and financial reporting processes.

The Audit Committee receives and considers reports from both Internal and External Auditors and recommends the annual report, financial statements and quality account to the Board of Directors for approval.

3. MEMBERSHIP & MEETINGS ATTENDANCE

The membership of the Audit Committee during the year has been:

Ian Pinches (5/5)	Committee Chair
John Rees (3/5)	NED
David Thomason (4/5)	NED

Meeting attendance is shown in brackets

The Committee's meetings in 2016/17 have been attended as appropriate by the Chief Executive, Director of Finance, and Deputy Director of Finance. Other officers have attended

by invitation where appropriate, for relevant agenda items. The Committee has received administrative support from the Corporate Office.

The Audit Committee has held pre-meetings in private and with the Internal and External Auditors, to provide an opportunity for discussion without officers present.

4. COMPLIANCE WITH TERMS OF REFERENCE

The Committee has a well-established Terms of Reference, which is reviewed and updated annually in accordance with NHS Audit Committee Handbook guidance.

	COMPLIANT YES/NO	**COMMENTARY AND ACTION PLAN WHERE NON-COMPLAINT**
DUTIES & RESPONSIBILITIES	Yes	See Paragraph 6
MEMBERSHIP AND ATTENDEES	Yes	The Audit Committee is made up entirely of Non – Executive Directors. (and see paragraph 3)
ATTENDANCE	Yes	See Paragraph 3
QUORUM	Yes	All meetings in the year have been quorate.
MEETINGS FREQUENCY	Yes	The Committee has met on 5 occasions in 2016/17
REPORTING ARRANGEMENTS	Yes	The Committee has reported to the Board via Chair's Key Issues and minutes following every meeting

An evaluative exercise is completed annually (see **Appendices A & B**).

5. AUDIT PROVISION

Internal Audit was provided by RSM during the period covered by the annual report.

KPMG has undertaken separate advisory work for the Trust during 16/17. The Audit Committee is satisfied concerning the ongoing independence of the External Audit function.

Representatives from Internal Audit and External Audit have attended all Audit Committee meetings held in the period.

Both Internal and External Audit have submitted annual audit plans, which were agreed and have been monitored by the Audit Committee. Regular updates on the progress and outcomes of these were presented to the Committee. The composite database of all outstanding internal audit recommendations /actions is reviewed at each Audit Committee meeting. The Executive is held to account for the delivery of actions as appropriate.

6. DUTIES & RESPONSIBILITIES

The Committee has reviewed the adequacy and effectiveness of:

- Risk and control related disclosure statements (in particular the Annual Governance Statement), together with any accompanying Head of Internal Audit Opinion statement, external audit opinion or other appropriate independent assurances.

- The underlying assurance processes that indicate the degree of achievement of corporate objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements (Board Assurance Framework).

- Controls in respect of policies for ensuring compliance with relevant regulatory and legal requirements and related reporting and self-certification.

- The policies and procedures for all work related to fraud, bribery and corruption as set out in Secretary of State Directions and as required by NHS Protect.

In carrying out this work the Committee has primarily utilised the work of internal audit, external audit and other assurance functions.

The Audit Committee's terms of reference were reviewed in May 2016 and are arranged under five key areas of responsibility.

- Governance, Risk Management and Internal Control
- Internal Audit (including Counter Fraud)
- External Audit
- Other Assurance Functions
- Financial and Quality Reporting

6a. GOVERNANCE, RISK MANAGEMENT AND INTERNAL CONTROL

As a culmination of its internal audit programme for 2016/17 the Committee received the Head of Internal Audit (HoIA) opinion on the Effectiveness of the Trust's System of Internal Controls. For 2016/17 the overall HoIA opinion was as follows:

> 'The organisation has an adequate and effective framework for risk management, governance and internal control. However, our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.'

The Committee has reviewed the Board Assurance Framework during the year. The HoIA opinion recorded Internal Audit's opinion of the Board Assurance Framework, following an internal audit as a 'Green' assurance rating, providing substantial assurance that the controls upon which the organisation relies to manage the identified risk(s) are suitably designed, consistently applied and operating effectively. The 2016/17 internal audit of the Trust's Risk Management systems recorded an opinion of 'amber/green' (reasonable assurance that the controls upon which the organisation relies to manage this area are suitably designed, consistently applied.)

The Audit Committee has concluded that the Board Assurance Framework and Risk Management processes are fit for purpose in identifying and monitoring the Trust's handling of strategic and corporate risk.

Throughout the year, the executive has responded to the recommendations made by Internal Audit.

The Committee has continued to review the balance of its activity to ensure that controls relating to the meeting of quality standards and financial controls are appropriately reflected in its programme of work.

The Committee has commissioned work to review the Trust's processes for ensuring compliance with relevant regulatory requirements and related reporting and self-certification. In 2016/17, this work has included:

- Information Governance Toolkit
- Financial Systems
- CIPS and Financial Forecasting - amber/red (partial assurance)
- CQC - amber/green (reasonable assurance)
- Non-Purchase Order Payment Systems – amber/red (partial assurance)

The Committee has the remit to review all instances where Standing Financial Instructions (SFIs) are waived. During 2016/17 the Audit Committee endorsed waivers regarding tendering for justifiable reasons, in accordance with the provisions of the Trust's SFIs.

The Committee has reviewed losses incurred and special payments made by the Trust at each meeting.

The Committee has monitored the Trust's Gifts, Hospitality and Sponsorship Register to secure assurance in respect of the openness, transparency and probity of the Trust's dealings with external stakeholders. The committee anticipates that the dissemination of the Trust's revised Management of Conflicts of Interest Policy (from June 2017) in line with national requirements for strengthened policy and processes will improve reporting in this area.

In 2016/17, the Audit Committee has undertaken detailed oversight work in the area of Research, Development, Innovation and Intellectual Property.

In 2016/17, the Audit Committee commissioned Internal Audit work to review the Trust's Financial Governance arrangements, following a deterioration in the Trust's financial position in Quarter 3.

6b(i). INTERNAL AUDIT

At each meeting, the Committee has received details of recent internal audit work together with a schedule of management's progress in implementing agreed actions.

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

- Agreeing the Strategic Audit Plan, which has been aligned with the Board Assurance Framework and the Trust's risk profile. The Committee continues to strive for balance in the work of Internal Audit between financial accounting and non-financial issues, especially 'quality'.

- Agreeing the Scope / Terms of Reference of forthcoming internal audits
- Considering the results of internal audit reviews
- Improved visibility of full Internal Audit reports
- Reviewing and agreeing the Head of Internal Audit Opinion for 2016/17.

6b(ii). COUNTER FRAUD

The Audit Committee has approved policies, strategies and plans for security management and countering fraud and bribery. It has been appraised of any irregularities or issues uncovered by these activities and the results of related investigations. The Local Counter Fraud Specialist attends each meeting of the Committee to present an interim report.

6c. EXTERNAL AUDIT

The Audit Committee has:

- Considered the scope and planning of the external audit through review of the external audit plan, together with the agreed fees and resources required

- Considered the impact on the Trust of External Audit's regular technical updates to the Committee

- Reviewed the International Standards on Auditing (ISA) 260 communication and followed up the recommendations made by the external auditors

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

6d. FINANCIAL AND QUALITY REPORTING

The Audit Committee has reviewed and recommended to the Board of Directors, the annual Financial Accounts and the Quality Account for 2016/17.

The Board considered its 'Going Concern' position at its meeting in April 2017 and after consideration of risks and uncertainties agreed that:

'The use of the going concern basis is appropriate but there are material uncertainties related to events or conditions that may cast significant doubt about the ability of the Trust to continue as a going concern, in which case these should be disclosed.' This position is reflected in the opinion of External audit for the 2016/17 period.

7. OVERALL CONCLUSION

The Audit Committee has complied with its Terms of Reference throughout 2016/17. Additionally, the Audit Committee has undertaken a self-assessment of its effectiveness, utilising the NHS Audit Committee Handbook checklist (**Appendices A & B**).

The Committee has reviewed relevant disclosure statements, in particular the Annual Governance Statement, together with the Head of Internal Audit Opinion, External Audit opinion and other appropriate independent assurances and considers that the Annual Governance Statement is consistent with the Committee's view on the Trust's system of internal control. Accordingly the Committee supports the CEO's signing of the Annual Governance Statement.

Ian Pinches
Chair of Audit Committee

May 2017

Appendix A

AUDIT COMMITTEE SELF ASSESSMENT CHECKLIST (NHS Audit Committee Handbook template)

SELF-ASSESSMENT CHECKLIST

Status key
1=must do
2=should do
3=could do

Status	Issue	Yes	No	N/A	Comments/Action
Composition, establishment and duties					
1	Does the Audit Committee have written terms of reference that adequately define the Committee's role in accordance with Department of Health/Monitor guidance?	✓			
1	Have the terms of reference been adopted by the Board?	✓			
1	Are the terms of reference reviewed annually to take into account governance developments (including integrated governance principles) and the remit of other Committees within the organisation?	✓			
1	Has the Committee been provided with sufficient membership, authority and resources to perform its role effectively and independently?	✓			
2	Are changes to the Committee's current and future workload discussed and approved at Board level?	✓			
1	Are Committee members independent of the management team?	✓			All Audit Committee members are independent NEDs
1	Does the Committee report regularly to the Board?	✓			CKIs to the BoD, following every meeting
1	Has the Chair of the Committee a prior understanding of, or received training in, finance and internal control or other relevant expertise?	✓			Chair is a qualified accountant and has previous Audit Committee experience

1	Are new members provided with appropriate induction?	✓			No formal induction process in place. Informal preparation provided by the Chair of the committee
1	Does the Board ensure that members have sufficient knowledge of the organisation's business to identify key risk areas and to challenge both line management and the auditors on critical and sensitive matters?	✓			All Committee members are non-executive Board members and as such, understand the business of the Trust and key risks
1	Does the Committee prepare an annual report on its work and performance in the preceding year for consideration by the Board?	✓			
1	Does the Committee assess its own effectiveness periodically?	✓			
Meetings					
1	Has the Committee established a plan of matters to be dealt with across the year?	✓			The Committee's agenda is aligned with the Trust's business and reporting cycle. External Audit, Internal Audit and LCFS Plans agreed for the year. A Forward Plan has been introduced for the Audit Committee in 2017.
1	Does the Committee meet sufficiently frequently to deal with planned matters and is enough time allowed for questions and discussion?	✓			
1	Does the Committee's calendar meet the Board's requirements and financial and governance calendar?	✓			
2	Are Committee papers distributed in sufficient time for members to give them due consideration?	✓			
2	Is the timing of Committee meetings discussed with all the parties involved?	✓			Governance timetable planned 12 months in advance

					and agreed with the Board
Compliance with the law and regulations governing the NHS					
1	Does the Committee review assurance and regulatory compliance reporting processes?	✓			See 6a
2	Has the Committee formally assessed whether there is a need for the support of a 'Trust/Company Secretary' role or its equivalent?		✓		Trust Secretary support in place
2	Does the Committee have a mechanism to keep it aware of topical, legal and regulatory issues?	✓			External Audit – technical updates. In 2016/17, RSM has also provided comprehensive technical updates to the Trust.
Internal control and risk management					
1	Has the Committee formally considered how it integrates with other Committees that are reviewing risk – for example, risk management and clinical governance?	partial			Key committee BAF reviews in place and reported to the Audit Committee by exception. Governance Structure review planned for 2017.
1	Has the Committee formally considered how its work integrates with wider performance management and standards compliance?	✓			Internal Audit Plan based on identified Trust Risks – including regulatory position.
1	Has the Committee reviewed the robustness and effectiveness of the content of the organisation's Assurance Framework?	✓			BAF reviewed. BAF internal Audit for 2016/17 –'Green' (Substantial Assurance)
1	Has the Committee reviewed the robustness and content of the draft Annual Governance Report before it is presented to the Board?	✓			02 May 2017
2	Has the Committee reviewed whether the reports it receives are timely and have the right format and content to enable it to discharge its internal control and risk management responsibilities?	✓			Internal Audit executive summaries received in 2016/17. Executive Director preview of internal audit terms of

					reference, audit outcomes and recommendation tracking
1	Has the Committee reviewed the robustness of the data behind reports and assurances received by itself and the Board?	partial			Internal audits e.g. financial systems. Data Quality and Quality Metrics audits planned for 2017/18
1	Is the Committee satisfied that the Board has been advised that assurance reporting is in place to encompass all the organisation's responsibilities?	✓			AGS and External Audit reporting
1	Is the Committee's role in reviewing and recommending to the Board the annual report and accounts clearly defined?	✓			
1	Does the Committee consider the External Auditor's report to those charged with governance including proposed adjustments to the accounts?	✓			
1	Does the Committee review management's letter of representation?	✓			
1	Is there clarity over the timing and content of the assurance statements received by the Committee from the Head of Internal Audit?	✓			
Internal Audit					
1	Is there a formal 'charter' or terms of reference, defining internal audit's objectives, responsibilities and reporting lines?	✓			
1	Are the terms of reference approved by the Committee and regularly reviewed?	✓			
2	Are the key principles of the terms of reference set out in the Standing Financial Instructions?	✓			
1	Does the Committee review and approve the internal audit plan at the beginning of the financial year?	✓			
1	Does the Committee approve any material changes to the plan?	✓			

2	Are audit plans derived from clear processes based on risk assessment with clear links to the Assurance Framework?	✓			
1	Does the Audit Committee receive periodic reports from the Head of Internal Audit?	✓			
1	Do these reports inform the Audit Committee about progress or delays in completing the audit plan?	✓			
3	Has the Committee established a process whereby it reviews any material objection to the plans and associated assignments that cannot be resolved through negotiation?	✓			Internal audit scope/ToRs approved by EDs and Audit Committee
2	Does the Committee effectively monitor the implementation of management actions arising from audit reports?	✓			Outstanding Recommendations / Actions Database
1	Does the Head of Internal Audit have a direct line of reporting to the Committee and its Chair?	✓			Responsibility is to Chair of Audit and key operational relationship is with the Director of Finance
2	Is internal audit free of any scope restrictions and, if not, what are they and who establishes them?		✓		Individual Internal Audit Terms of Reference agreed by EDs and the Audit Committee
2	Is internal audit free from any operating responsibilities or conflicts of interest that could impair its objectivity?	✓			
2	Has the Committee determined the appropriate level of detail it wishes to receive from internal audit?	✓			
1	Does the Committee hold periodic private discussions with the Head of Internal Audit?	✓			Regular pre-meetings
2	Does the Committee review the effectiveness of internal audit and the adequacy of staffing and resources within internal audit?	✓			Internal Audit Annual Report
2	Has the Committee evaluated whether internal audit complies with the Government Internal Audit Standards in an FT?	✓			Covered in Charter

3	Has the Committee agreed a range of internal audit performance measures to be reported on a routine basis?	✓			
1	Does the Committee receive and review the Head of Internal Audit's annual report and opinion?	✓			
2	Is there appropriate cooperation with the external auditors?	✓			
2	Are there any quality assurance procedures to confirm whether the work of the internal auditors is properly planned, completed, supervised and reviewed?	✓			Charter and performance review
External Audit					
1	Do the external auditors present their audit plans and strategy to the Committee for approval?	✓			
2	Has the Committee satisfied itself that work not relating to the financial statements is adequate and appropriate?	✓			
2	Does the Committee receive and monitor actions taken in respect of prior years' reviews?	✓			
1	Does the Committee review the External Auditor's annual audit letter?	✓			
1	Does the Committee review the External Auditor's use of resources conclusion?	✓			
1	Does the Committee hold periodic private discussions with the external auditors?	✓			Regular pre-meetings
2	Does the Committee assess the performance of external audit?	partial			Formal process to be developed and implemented, involving reporting to Governors' Council
3	Does the Committee require assurance from external audit about the policies for ensuring independence and compliance with staff rotation requirements?	✓			Independence Letter where applicable
3	Does the Committee review the nature and value of non-audit work carried out by the	✓			Independence letter

	external auditors?				
Clinical Audit					
1	Is the Committee clear about where clinical audit assurances are received and monitored?	✓			
2	If it is the Audit Committee that receives and monitors clinical audit assurances does it: • Review the clinical audit plan at the beginning of each year? • Confirm that clinical audit plans are derived from clear processes based on risk assessment with clear links to the Assurance Framework? • Receive periodic reports from the person responsible for clinical audit? • Effectively monitor the implementation of management actions arising from clinical audit reports? • Ensure that the person responsible for clinical audit has a direct line of access to the Committee and its Chair? • Hold periodic private discussions with the person responsible for clinical audit? • Review the effectiveness of clinical audit and the adequacy of staffing and resources available for clinical audit? • Evaluate clinical audit against the Healthcare Quality Improvement Partnership's publication *Clinical Audit: A simple guide for NHS Boards?* • Confirm that there are quality assurance procedures in place to confirm whether the work of clinical auditors is properly planned, completed, supervised and reviewed? • Confirm that there are terms of reference for clinical audit that define its objectives, responsibilities and reporting lines? • Review clinical audit's terms of reference regularly?			✓	The Audit Committee does not monitor clinical audit assurances. It has, however, had oversight of the action plan to address recommendations of the clinical audit internal audit in 2015/16 and will be seeking further assurances that process improvements are embedded and that the results of clinical audits are effectively reported and acted upon.
Counter Fraud					
1	Does the Committee review and approve the	✓			

	counter fraud work plan at the beginning of the financial year?				
1	Does the Committee satisfy itself that the work plan adequately covers each of the generic areas defined in NHS counter fraud policy?	✓			
1	Does the Committee approve any material changes to the plan?	✓			
2	Are counter fraud plans derived from clear processes based on risk assessment?	✓			
1	Does the Audit Committee receive periodic reports from the Local Counter Fraud Specialist?	✓			
2	Does the Committee effectively monitor the implementation of management actions arising from counter fraud reports?	✓			
1	Does the Local Counter Fraud Specialist have a right of direct access to the Committee and its Chair?	✓			
1	Does the Committee review the effectiveness of the local counter fraud service and the adequacy of its staffing and resources?	✓			
1	Does the Committee receive and review the Local Counter Fraud Specialist's annual report of counter fraud activity and qualitative assessment?	✓			
1	Does the Committee receive and discuss reports arising from quality inspections by NHS Protect?	✓			
Annual accounts and disclosure statements					
1	Is the Committee's role in the approval of the annual accounts clearly defined?	✓			
2	Is a Committee meeting scheduled to discuss proposed adjustments to the accounts and issues arising from the audit?	✓			
1	Does the Committee specifically review: • Changes in accounting policies? • Changes in accounting practice due to changes in accounting standards?	✓			

	• Changes in estimation techniques? • Significant judgements made?				
3	Does the Committee review the draft accounts before the start of the audit?		✓		The Committee receives a report from the Auditors on the status and completeness of the draft accounts
1	Does the Committee ensure it receives explanations as to the reasons for any unadjusted errors in the accounts found by the external auditors?	✓			
1	Does the Committee receive and review a draft of the organisation's Annual Governance Statement?	✓			03 May 2016
2	Does the Committee receive and review the evidence required to demonstrate fitness to register with the Care Quality Commission?	✓			IG Toolkit internal audit undertaken. CQC Self-Assessment internal audit undertaken in 2016/17
2	Does the Committee receive and review a draft of the organisation's annual report?	✓			
Other issues					
3	Has the Committee considered the costs that it incurs: and are the costs appropriate to the perceived risks and the benefits?	✓			LCFS 'days per annum' reviewed and revised in 2016/17
2	Has the Committee reviewed its performance in the year for consistency with its: • Terms of reference? • Programme for the year?	✓			
3	Does the annual report and accounts of the Trust include a description of the Committee's establishment and activities?	✓			Governance Section of the Annual Report

Appendix B

Audit Committee Skills and Competencies Assessment

Audit Committee Skills and Competencies Self Assessment					
	Ian Pinches (Chair)	**John Rees**	**David Thomason**	**Comment**	**Agreed training/development**
Experience of equivalent Committees	✓	✓	✓		
Recent relevant financial experience	✓	X	✓		
Basic financial literacy	✓	✓	✓		
Basic understanding of internal control	✓	✓	✓		
Financial qualification	✓	X	✓		
Working knowledge of risk management process	✓	✓	✓		
Working knowledge of B A F	✓	✓	✓		
Briefing on responsibilities for annual accounts	✓	✓	✓		
Briefing on responsibilities for Annual Governance Statement	✓	✓	✓		
Briefing on responsibilities for CQC self-assessments	X	X	X	BoD responsibility. Audit Committee commissioned an internal process audit for 2016/17	