

BOARD MEETING

27 April 2017

Paper Title:	Audit Committee Annual Report 2016/17
Lead Director:	David Banks, Chair
Paper Author:	Paul Hogg, Trust Secretary
Agenda Item:	14a
Presented For:	Assurance

Purpose of this Report:

The terms of reference of the Audit Committee require that it submits an Annual Report to the Board to summarise its work during the year and to identify how it has fulfilled the duties required by the Board.

The Committee approved its report on 11 April 2017 with some very minor amendments which have now been incorporated.

Recommendations:

That the Board:

- Note the Annual Report of the Audit Committee for 2016/17.

Audit Committee Annual Report 2016/17

Introduction

1. The Audit Committee is established under Board delegation with approved terms of reference that are aligned to the NHS Audit Committee Handbook, published by the Department of Health. The Committee’s terms of reference require that an Annual Report is submitted to the Board to summarise its work over the past year and to identify how it has fulfilled the duties required by the Board. All Committee reports are submitted in April or May to help inform the approval of the Annual Report and Accounts / Annual Governance Statement (AGS). This report outlines the work of the Audit Committee during 2016/17, highlighting key areas of work and assurance.

Audit Committee Membership and Meetings

2. The Committee comprises solely of Non-Executive Directors (NEDs), supported by the Director of Finance, Contracting and Estates, Trust Secretary and senior staff from the Finance Directorate. Membership of the Audit Committee has remained the same during the year with no changes in NED portfolios affecting this Committee. Attendance at Audit Committee meetings has been consistently strong as shown in the table below. The Audit Committee met five times during 2016/17. The Committee Chair reported on the work of the Audit Committee through his regular assurance reports at Board meetings and Committee minutes are circulated to all Board members.

Audit Committee members	Attendance
David Banks	4/5
Sue Butler	5/5
Nadira Mirza	4/5

3. The Audit Committee meets with internal and external auditors in attendance as well as the Director of Finance, Contracting and Estates, Deputy Director of Finance, Trust Secretary, and a Local Counter Fraud representative. Both auditors have met the Committee independently in the absence of Directors or other attendees outside formal Committee meetings. Neither auditor has at any time indicated any area of urgent concern that needed to be brought to the Committee or Board’s attention outside the normal meeting cycle.

4. The Audit Committee works to an annual plan of scheduled agenda topics, along with a range of specific issues which are subject to review. A rolling programme of actions is maintained and monitored accordingly. The summary below is divided into seven areas reflecting the key duties set out in the Committee’s terms of reference. The Committee’s terms of reference were reviewed at its November meeting.

Governance, risk management and internal control

5. In preparation for approval of the Annual Report and Accounts, the Committee reviewed the relevant disclosure statements, in particular the AGS, together with the Head of Internal Audit Opinion, External Audit Opinion and considered that the AGS was consistent with its views on the Trust’s systems of internal control. Individual Directors provided signed letters of representation which added further assurance to existing processes and these were referenced at the May Audit Committee meeting.

6. The Audit Committee has reviewed the format and content of the Board Assurance Framework (BAF) twice during the year and the adequacy of the assurances that have been received. On neither occasion did the Committee identify any gaps in control or further risks although there were comments received about the overall content being mental health-focused. The BAF continues to be presented to Audit Committee and the Board on a quarterly basis.

Internal Audit

7. The Audit Committee has been kept regularly informed about the merger between the West Yorkshire Audit Consortium (WYAC), the Trust's internal auditors, and North Yorkshire Audit Services (NYAS) to establish a new internal audit function. The merger officially took place on 1 July 2016 and the new name, Audit Yorkshire, was ratified at a meeting of members on 6 September 2016. Liz Romaniak has been appointed to sit on the Audit Yorkshire Board.

Internal audit has undertaken a wide ranging review of key systems and controls, reporting back at each Audit Committee meeting. The Audit Committee has worked effectively with internal audit to strengthen the Trust's internal control processes. During the year there have been some staff changes but that has not impacted on the effectiveness of the internal audit function.

8. During the year, the Audit Committee has:

- reviewed and approved the Internal Audit Strategy, operational plan and its detailed programme of work;
- been invited to attend various conferences arranged by Audit Yorkshire;
- considered the opinions given on Internal Audit reports and, where limited assurances have been presented, put in place further scrutiny or review of the actions recommended. The Committee received 18 internal audit reports at its five meetings; 16 were presented as providing significant assurance and one full assurance. There was one report in 2016/17 issued with a 'limited assurance' opinion: IT Asset Management. It was agreed that the remaining reports for 2016/17 would be submitted to the May meeting. Robust procedures are in place for following up all internal audit recommendations;
- seen governance processes strengthened to monitor how internal audit recommendations have been followed up through a monthly report to the Directors' Business & Transformation Governance meetings. This has led to a more robust process and ownership of actions at Deputy Director level; and
- considered the Head of Internal Audit Opinion for 2015/16 on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes. The opinion was that significant assurance could be given that there was a generally sound system of internal control, designed to meet the organisation's objectives, and that controls were generally being applied consistently. This was based upon the audit work carried out during the year in line with the plan approved by the Committee. This opinion contributed to the Board's assessment of the effectiveness of the Trust's system of internal control and to the completion of its AGS.

External Audit

9. The external audit function is undertaken by KPMG LLP which has provided regular reports to each Audit Committee meeting. The key areas reported to the Audit Committee have included:

- technical updates informing the Committee about changes in accounting practices, reports from the CQC, NHS Improvement, NHS England and the Charity Commission relevant to the Trust. During the year these reports have also included more social care issues reflecting the changes in the health landscape and the direction of travel set out in the 5 Year Forward View. The Committee has used the technical updates to raise issues about and to feed into the monthly Chief Executive's report to the Board;
- the external auditor's annual plan (which was duly approved by the Committee). The annual plan was based on KPMG's risk-based approach;
- helpful advice, guidance and support to senior management in compliance with Audit Committee responsibilities;
- the audit of the Trust's financial statements and auditor's opinion (see below); and
- the Annual Audit Letter, summarising the key issues arising from the external audit work during the year.

Counter Fraud

10. The Trust has a very proactive nominated Local Counter Fraud (LCF) Specialist provided via WYAC/Audit Yorkshire, who is fully accredited by the NHS Counter Fraud and Security Management Service. The Audit Committee approved the Annual Counter Fraud Plan in April 2016 and received regular updates on progress of counter fraud work during the year. The Committee reviewed assurance against the requirements of Section 7 of the Bribery Act 2010, accepting three of the four recommendations with further work to be undertaken around due diligence with new suppliers. In September 2016, the Committee received a self-assessment of counter fraud activity, based upon a RAG rating. The result of the assessment was an overall rating of green in each of the four domains, with two sub-categories rated as amber. These related to regular testing against the Bribery Act Code of Conduct and the review of new and existing policies relevant to counter fraud (both of which were viewed as amber due to the ongoing nature of the work).

11. The LCF team has continued to be proactive in strengthening an anti-fraud culture within the Trust and regularly reported on progress of any fraud investigations. A small number of investigations have been highlighted to the Committee during the year.

Management

12. The Audit Committee has considered at each meeting the waivers against the Trust's Standing Orders, Standing Financial Instructions and Scheme of Delegation. All submissions during the year were accepted by the Committee. The Audit Committee has also considered four areas of positive assurance relating to other governance issues during the year:

- 6-monthly reports on information and data assurance linked to internal processes of gathering and maintaining key data across the Trust;
- An update on the policy and procedure relating to gifts and hospitality;
- A review of the Performance Management Framework for 2016-2018; and
- 6-monthly reports against the level of litigation sought against the Trust, the financial implications of these claims and assurances about the improvements to processes and lessons learned that help to mitigate potential litigation in the future.

Financial Reporting

13. The Annual Report and Accounts for 2015/16 were considered by the Audit Committee in April and May 2016 including the proposed wording of the AGS and duly submitted to the Board for approval. The Audit Committee was pleased to note that once again the report of External Audit indicated that an unqualified audit opinion was to be given on the accounts and that the auditors had not identified any significant weaknesses in systems of accounting and financial control.

Review of effectiveness

14. The Audit Committee undertook an annual evaluation of its own performance through a survey monkey questionnaire. A copy of the results were submitted as part of the Committee report but are not appended to this report. The evaluation concluded that:

- The Committee is performing strongly with the majority of areas scoring a weighted average of 4.5 or more;
- A number of comments were made about training for Audit Committee members (Question 8 with a weighted average score of 3.29); and
- One response believed the Committee's role on reviewing risk/the BAF needed to be more overt (Question 14 with a weighted average of 3.86).

The results of the evaluation are being taken forward by the Trust Secretary.

Recommendations

15. That the Board:

- Note the Annual Report of the Audit Committee for 2016/17.