

## BOARD MEETING

16 April 2018

Paper Title:	Audit Committee Annual Report 2017/18
Lead Director:	David Banks, Chair
Paper Author:	Paul Hogg, Director of Corporate Affairs
Agenda Item:	14
Presented For:	Assurance
Paper Category:	Governance & Compliance

### Executive Summary:

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. This report was discussed at the Audit Committee on 16 April.

Two further areas were identified by the Committee for inclusion in the final report (now incorporated):

- A recognition that the Committee had been apprised of the CQC inspection report (paragraph 17); and
- Highlights from the evaluation questionnaire (paragraph 19).

### Recommendations:

That Trust Board:

- Note the Annual Report of the Audit Committee for 2017/18.

**Governance/Audit Trail:**

Meetings where this item has previously been discussed (please mark with an X):					
<b>Audit Committee</b>	x	<b>Quality &amp; Safety Committee</b>		<b>Remuneration Committee</b>	<b>Finance, Business &amp; Investment Committee</b>
<b>Executive Management Team</b>		<b>Directors</b>		<b>Chair of Committee Meetings</b>	<b>Mental Health Legislation Committee</b>
<b>Council of Governors</b>					

This report supports the achievement of the following strategic aims of the Trust: (please mark those that apply with an X):	
<b>Quality and Workforce:</b> to provide high quality, evidence-based services delivered by a diverse, motivated and engaged workforce	x
<b>Integration and Partnerships:</b> to be influential in the development and delivery of new models of care locally and more widely across West Yorkshire and Harrogate STP	
<b>Sustainability and Growth:</b> to maintain our financial viability whilst actively seeking appropriate new business opportunities	

This report supports the achievement of the following Regulatory Requirements: (please mark those that apply with an X):	
<b>Safe:</b> People who use our services are protected from abuse and avoidable harm	
<b>Caring:</b> Staff involve people who use our services and treat them with compassion, kindness, dignity and respect	
<b>Responsive:</b> Services are organised to meet the needs of people who use our services	
<b>Effective:</b> Care, treatment and support achieves good outcomes, helps to maintain quality of life people who use our services and is based on the best available evidence.	
<b>Well Led:</b> The leadership, management and governance of the organisation make sure it's providing high-quality care that is based around individual needs, encourages learning and innovation, and promotes an open and fair culture.	x
<b>NHSI Single Oversight Framework</b>	

Equality Impact Assessment :
N/A.

## Audit Committee Annual Report 2017/18

### 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 2017/18, 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, Director of Corporate Affairs, Deputy Trust Secretary and senior staff from the Finance Directorate. Membership of the Audit Committee has consisted of 4 NEDs during the year, with two (the Chair and Deputy Chair) in post for the whole of the financial year. Ms Mirza was a member of the Audit Committee until 30 September 2017; following her retirement from the Board, Rob Vincent became a member of the Audit Committee.

3. Attendance at Audit Committee meetings has been consistently strong as shown in the table below. The Audit Committee met five times during 2017/18. 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	5/5
Sue Butler	4/5
Nadira Mirza	2/3
Rob Vincent	2/3

4. The Audit Committee meets with internal and external auditors in attendance as well as the Director of Finance, Contracting and Facilities, Deputy Director of Finance, Director of Corporate Affairs, 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.

5. 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**

6. 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.

7. The Audit Committee has reviewed the format and content of the Board Assurance Framework (BAF) three times during the year and the adequacy of the assurances that have been received. Committee members have noted the revisions to the strategic objectives, and highlighted issues relating to clinical audit, the development of an innovative culture and the need to regularly review the workforce-related risks affecting the organisation. The BAF continues to be presented to the Board on a quarterly basis.

### **Internal Audit**

8. The Audit Committee had been regularly informed of developments across Audit Yorkshire, following the merger between North Yorkshire Audit Services (NYAS) and West Yorkshire Audit Consortium (WYAC) in July 2016. Audit Yorkshire's Integration Report, which provided information about the governance framework under which it operates, finances, work streams and the strategic direction of the auditors, was considered and endorsed by the Audit Committee at its November meeting.

9. 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. Retention of the Audit Manager from Quarter 1 also provided some useful continuity for the Trust at a time when there was movement of Audit Yorkshire staff elsewhere across other providers.

10. Wider value adding activities delivered through the Audit Yorkshire Partnership Board arrangements include a March 2018 development session for Audit Committee members (and other Trust staff). These have provided useful intelligence and opportunities for shared learning on wide-ranging topics including systems partnerships under emerging national frameworks and the revised CQC well-led inspection regime.

11. 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. The Committee received 31 internal audit reports at its five meetings; 28 were presented as providing significant assurance and 2 high assurance. No reports received less than a 'significant assurance' opinion during 2017/18 and robust procedures are in place for following up all internal audit recommendations;

- overseen governance processes which continue to monitor how internal audit recommendations have been followed up through a monthly report to the Directors' Business & Transformation Governance meetings. This has again shown robust processes and ownership of actions are in place at Deputy Director level; and
- considered the Head of Internal Audit Opinion 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.

12. Reports provided to the Audit Committee in the year 2017/18 are shown below with the assurance level provided:

Audit Assignment	Report reference	Status	Assurance /Comment	Level
Financial Systems	BDCT10/2017	Complete	Significant	
Informatics capacity	BDCT11/2017	Complete	Significant	
Charitable Funds	BDCT12/2017	Complete	Significant	
Dental system	BDCT07/2017	Complete	Significant	
IT contracts	BDCT13/2017	Complete	Significant	
Payroll	BDCT16/2017	Complete	Significant	
Assurance Framework	BDCT17/2017	Complete	Not applicable*	
KPIs Dental RTT	BDCT18/2017	Complete	Significant	
Stakeholder Engagement	BDCT19/2017	Complete	Significant	
Communications	BDCT20/2017	Complete	Significant	
Records Management – follow up	BDCT21/2017	Complete	Significant	
IAPT – PCMIS system	BDCT22/2017	Complete	Significant	
NHSI/ Monitor Code compliance	BDCT23/2017	Complete	Significant	
Consultant Job Plans	BDCT25/2017	Complete	Significant	
Consultant Recruitment	BDCT26/2017	Complete	Significant	
E Rostering	BDCT27/2017	Complete	Significant	
Learning from Serious Incidents and Complaints	BDCT14/2017	Complete	Significant	
Quality and Safety Committee	BDCT15/2017	Complete	High	
Clinical Coding (Clustering)	BDCT24/2017	Complete	Significant	
Bank and Agency	BDCT28/2017	Complete	Significant	
Children's Service Redesign	BDCT29/2017	Complete	Significant	
Safeguarding	BDCT01/2018	Complete	Significant	
CQC Compliance	BDCT02/2018	Complete	Significant	
Management of Telephony	BDCT03/2018	Complete	Significant	

Budgetary Control	BDCT04/2018	Complete	Significant
Administration of Mental Health Act	BDCT05/2018	Complete	Significant
Recruitment and Retention	BDCT06/2018	Complete	Significant
Workforce Strategy	BDCT07/2018	Complete	Significant
Financial forecasting	BDCT08/2018	Complete	High
Risk Management	BDCT09/2018	Complete	Significant
Preparation for GDPR	BDCT10/2018	Complete	Significant

\* included in Head of Internal Audit opinion– positive assurance given

## External Audit

13. 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 consolidating a wide range of publications, guidance and management tools. These have included updates on the Single Oversight Framework, NHS provider performance, financial control totals across STPs, data security, cyber-attacks, fire safety checks, and guidance relating to automated CIP dashboards, publication of the learning from deaths policy and accounting processes for NHS bodies. Information was also received about the introduction of the new General Data Protection Regulations (GDPR) and a separate briefing organised for the Executive Management Team, Deputies and GDPR leads with KPMG colleagues. 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.

14. The Audit Committee has also, during the course of the year, started to consider the timetable for the appointment process of the external auditors, involving the Council of Governors. This will be a competitive process, which will formally commence in September 2018.

## Counter Fraud

15. The Trust has a very proactive Local Counter Fraud (LCF) service provided as an adjunct to the Audit Yorkshire Internal Audit arrangements and fully accredited by the NHS Counter Fraud and Security Management Service. Changes in the team during the year have been well managed with no reduction in the quality of the service. The Audit Committee approved the Annual Counter Fraud Plan in April 2017 and received regular updates on progress of counter fraud work during the year. In May 2017, the Committee

discussed and endorsed the 2017 Fraud Self-Review toolkit against the 24 standards set by NHS Protect. In February 2018, the Committee was apprised of a number of fraud alerts relating to whale-phishing and fraudulent invoicing and discussed the NHS Counter Fraud Authority's Organisational Strategy for 2017-2020.

16. 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, including a successful pursuit and prosecution relation to Operation Hybrid. A small number of investigations have been highlighted to the Committee during the year.

## **Management**

17. 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 six areas of assurance relating to other governance issues during the year:

- a further update into the review of continence services and handover to the Finance Business and Investment Committee of ongoing operational planning implications;
- 6-monthly reports on information and data assurance linked to internal processes of gathering and maintaining key data across the Trust;
- a new report from the Freedom to Speak Up Guardian (FTSU), presenting the work undertaken following the appointment of the FTSU Guardian to ensure staff could raise concerns and that there was robust procedures in place to monitor cases;
- a paper on proposed changes to the scheme of delegation relating to collaborative work with other mental health trusts in West Yorkshire;
- 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; and
- implications of the CQC inspection report, which has resulted in revised priorities for the internal audit work programme in 2018/19 linked to the CQC 'Must Do' requirements, and a first paper highlighting the need to introduce revised management arrangements for the review and upkeep of Trust policies.

## **Financial Reporting**

18. The Annual Report and Accounts were considered by the Audit Committee 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**

19. The Audit Committee undertakes an annual evaluation of its own performance through a survey monkey questionnaire. The output from the evaluation were discussed

at the Audit Committee on 16 April and presented a strong set of results concluding that the Committee was performing effectively in its role. Four areas were highlighted at the meeting:

- There was a need to consider the succession planning arrangements for Audit Committee members, given the current Chair was in his second term of office;
- One response suggested it would be useful for the Board to consider the level of challenge to both management and internal audit on key risk issues and it is suggested this is reviewed when the Board considers the new Risk Management Strategy in Quarter 2;
- There was a need to ensure that assurances from the Mental Health Legislation Committee were at similar levels to that of other Committees and cross-membership should be reviewed; and
- Draft minutes of Committee meetings could be sent out earlier to members given the frequency of the meetings throughout the year.

## **Recommendations**

20. That the Board:

- Note the Annual Report of the Audit Committee for 2017/18.