

Board of Directors

Item 6.2.1

Subject: Audit Committee Effectiveness Review and Annual Report
Date of Meeting: 26th April 2023
Presented by: Julian Farmer, Non Executive Director
Purpose of Report: To Note

BAF Reference	Impact on BAF
ALL	The report provides assurance on the delivery of the role of the Audit Committee as delegated through the Terms of Reference.

Level of assurance (please tick one)					
To be used when the content of the report provides evidence of assurance					
X	Acceptable assurance Controls are suitably designed, with evidence of them being consistently applied and effective in practice	<input type="checkbox"/>	Partial assurance Controls are still maturing – evidence shows that further action is required to improve their effectiveness	<input type="checkbox"/>	Low assurance Evidence indicates poor effectiveness of controls

1. Executive Summary

The Audit Committee has met 4 times during the financial year 2022/23 with good attendance demonstrated by members and regular attendees. The Committee also held an extraordinary meeting in June 2022 to review and recommend approval of the annual report and financial statements to the Board of Directors.

The committee is responsible for ensuring effective internal control. The work of the committee has continued to combine a range of internal assurances with those provided by internal and external audit providers. The Committee has also continued to oversee the work of the anti fraud specialist. Risks and issues have been escalated to the Board of Directors through the BAF key issues reports.

The effectiveness review has confirmed that the committee has met its objectives as delegated through the Committee Terms of Reference (TOR) and continues to operate effectively.

The development of the wider integrated care system arrangements, collaboration and joint working will be a theme for the committee (this will be subject to the range and scale of the governance developments).

The Terms of Reference will be reviewed and updated in light of the effectiveness review.

The Audit Committee is asked to note the report, confirming that the committee has operated effectively during 2022/23.

2. Committee Effectiveness

The effectiveness of the Committee has been reviewed through:

- a. Review of TOR and workplan
- b. Desktop exercise to confirm alignment of agendas/ papers to TOR
- c. Survey responses
- d. Wider considerations (insight, assurance, foresight and hindsight)
- e. Workshop to discuss findings facilitated by MIAA

2.1 Delivery of Objectives

The table below sets out how the Committee has met its objectives as delegated by the Board of Directors through its Terms of Reference.

Terms of Reference	Evidence to support delivery	Outstanding Issues/ Actions/ Escalations
1. Integrated Governance, Risk Management and Internal Control		
All risk and control related disclosure statements (in particular the governance statement) together with any accompanying Head of Internal Audit Opinion, external audit opinion or other appropriate independent assurances, prior to submission to the Board	The Committee received: <ul style="list-style-type: none"> • Head of Internal Audit Opinion (draft and final) • Third Party Assurances • Annual Governance Statement (draft and final) • External audit opinion 	-
The underlying assurance processes that indicate the degree of achievement of the Trust's objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements	MIAA provided assurance through the BAF opinion report.	-
The policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and any related reporting and self-certifications	The Committee led the annual review of the corporate governance manual. Compliance with the Provider Licence was assessed through the quarterly checklist.	Continued recognition of the challenges in meeting the referral to treatment targets in light of the covid-19 backlogs and recovery.
The policies and procedures for all work related to counter fraud and security as required by NHS Counter Fraud Authority	The Committee led the annual review of the corporate governance manual and also received regular reports from the Anti Fraud Specialist confirming compliance with the Counter Fraud Authority standards.	-
Controls and risk management arrangements associated with cyber security	Assurance on cyber security included The National Cyber Security Centre guidance checklist, Log4Shell global cyber security	-

Terms of Reference	Evidence to support delivery	Outstanding Issues/ Actions/ Escalations
	vulnerability update and a general Cyber Security Update in year.	
Ensure that appropriate data quality standards are set and compliance with these standards is monitored	The Committee received a report providing assurance on data quality.	There was a mid-year challenge in coding data with assurance received on recovering this position in year.
In carrying out this work the Committee will primarily utilize the work of internal audit, external audit and other assurance functions, but will not be limited to these sources. It will also seek reports and assurances from directors and managers as appropriate, concentrating on the over-arching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.	<p>The Committee receives regular reports and assurances from internal audit, external audit and counter fraud.</p> <p>Executive Directors provide assurance reports including losses and special payments, provider licence compliance, clinical audit, digital and cyber security.</p>	-
As part of its integrated approach, the Committee will have effective relationships with other key committees notably the Quality Committee and Integrated Performance Committee, such that it understands processes and linkages.	The Audit Committee received mid-year committee reports as well as annual effectiveness reports from the Assurance Committees.	-
2. Internal Audit		
Considering the provision of the internal audit service and the costs involved	The Committee approved the Internal Audit Plan and Internal Audit Charter.	-
Reviewing and approving the annual internal audit plan and more detailed programme of work, ensuring that this is consistent with the audit needs of the organisation as identified in the Board Assurance Framework	The Committee were involved in the development of the Internal audit plan and approval.	-
Considering the major findings of internal audit work (and management's response) and ensuring coordination between the internal and external auditors to optimize the use of audit resources	<p>Internal Audit Progress Reports set out the progress against plan and any major findings (every meeting).</p> <p>Follow Up Reports were monitored to ensure actions were delivered.</p> <p>The committee oversaw the delivery of both internal audit and external audit plans.</p>	There have been no limited or no assurance reports in year.
Ensuring the internal audit function is adequately resourced and has appropriate standing within the organisation	<p>The Committee reviewed and approved the Internal Audit plan including resources and progress against this plan.</p> <p>The Internal Audit function has direct access to the Audit Committee Chair and members.</p>	-
Monitoring the effectiveness of internal audit and carrying out an annual review	The Committee receive periodic reports on the results of a survey on internal audit effectiveness.	-
3. External Audit		

Terms of Reference	Evidence to support delivery	Outstanding Issues/ Actions/ Escalations
Considering the appointment and performance of the external auditors and making recommendations to the Council of Governors	Annual review of performance of external auditor. Appointment of External Auditor in year with COG involvement and approval.	The appointment of the External Auditors was recommended to the COG for approval.
Discussing and agreeing with the external auditors, before the audit commences, the nature and scope of the audit, as set out in the annual plan	The Committee reviewed reports including the paper Informing the Audit Risk Assessment – Enquiries of Management.	-
Discussing with the external auditors their evaluation of audit risks and assessment of the organization and the impact of the audit fee	The Committee approved the External Audit Plan.	-
Reviewing all external audit reports and any work undertaken outside of the audit plan, together with the appropriateness of management responses	External Audit Update Reports were received in year.	-
Ensuring there is in place a clear policy for the engagement of external auditors to supply non audit services	CGM review annually	
4. Counter Fraud		
To satisfy itself that the organisation has adequate arrangements in place for counter fraud and security that meet NHS Counter Fraud Authority standards and shall review the outcomes of work in these areas.	The Committee approved the Anti Fraud plan. The Anti Fraud specialist provided reports on progress against the plan and compliance with the counter fraud authority standards.	-
5. Financial Reporting		
The Committee shall monitor the integrity of the financial statements of the Trust and any formal announcements made by the Trust in relation to its financial performance.	The Committee received assurances on financial systems and reporting from both the internal and external auditors.	-
The Committee shall ensure that the systems for financial reporting to the Board, including those of budgetary control, are subject to review as to the completeness and accuracy of the information provided.	The Committee received assurances on financial systems and reporting from both the internal and external auditors. The HfMA financial checklist self-assessment and audit results were received in year.	The Board also received an update on the positive results from the HfMA financial checklist.
The Committee shall review the annual report and financial statements before submission to the Board of Directors, focusing particularly on: <ul style="list-style-type: none"> The wording of the Annual Governance Statement and other disclosures relevant to the terms of reference of the Committee Changes in, and compliance with accounting policies, practices and estimation techniques 	Review of the Audited Annual Report, Accounts and Financial 2021/22 was undertaken prior to submission to the Board. The Committee considered items for the Annual Governance Statement (AGS) at every meeting and reviewed the draft AGS. The review of accounting policies was received.	The annual report and financial statements were recommended to the Board for approval.

Terms of Reference	Evidence to support delivery	Outstanding Issues/ Actions/ Escalations
<ul style="list-style-type: none"> Unadjusted miss-statements in the financial statements Significant judgments in preparation of the financial statements Significant adjustments resulting from the audit Letters of representation Explanations for significant variances 	The external auditors reported on their findings from the audit of the financial statements.	
6. Governance		
To review on behalf of the Board of Directors the operation of, and proposed changes to the Governance manual including standing financial instructions, the constitution, codes of conduct and standards of business conduct; including maintenance of registers.	<p>The Committee led the annual review of the Corporate Governance Manual.</p> <p>An annual review of the register of interests (including details of breaches) was provided in year.</p> <p>The Committee reviewed losses and special payments, and single supplier tender waivers across the year.</p>	The updated CGM was recommended to the Board for approval.
To review the scheme of delegation.	Scheme of reservation reviewed as part of the corporate governance manual.	-
To ensure that action plans relating to regulatory requirements are monitored and delivered	<p>The Committee reviewed Compliance with the provider licence through the quarterly checklist.</p> <p>There have been no regulatory action plans reported in year.</p> <p>External visits log reviewed in year.</p>	-
7. Raising Concerns		
The Committee shall review the effectiveness of the arrangements in place for allowing staff to raise (in confidence) concerns about possible improprieties in financial, clinical or safety matters and ensure that any such concerns are investigated proportionally and independently.	The Committee received assurance through an internal audit review of FTSU arrangements.	-
8. Other		
To review performance indicators relevant to the remit of the Audit Committee.	Risk KPIs continue to be monitored	Continued challenges regarding the closure of incidents in 28 days.
To examine any other matter referred to the Audit Committee by the Board of Directors and to initiate investigation as determined by the audit committee.	There have been no specific matters referred to the Committee in year beyond those covered within the TOR.	-
To ensure the effective use of the Board Assurance Framework to guide the Audit Committee's work. This will include utilising and reviewing the work of the internal	The BAF is regularly reviewed by the Board and through the assurance committees.	-

Terms of Reference	Evidence to support delivery	Outstanding Issues/ Actions/ Escalations
audit, external audit and other assurance functions as well as the CQC's Intelligent Monitoring report and reports and assurances sought from directors and managers and other investigatory outcomes so as fulfil its functions in connection with these terms of reference.	<p>The Internal Audit plan connects to the BAF.</p> <p>MIAA provided independent assurance on the effectiveness of the BAF through the annual BAF opinion.</p> <p>CQC intelligent monitoring has been received by the Board. CQC suspended this reporting in year.</p>	
To consider the outcomes of significant reviews carried out by other bodies which include but are not limited to regulators and inspectors within the health sector and professional bodies with responsibilities that relate to staff performance and functions.		

2.2 Assessment of Effectiveness

Members and regular attendees were invited to complete a survey on the effectiveness of the committee. The responses received were overwhelmingly positive with confirmation of effective chairmanship, attendee contributions, assurances received and constructive challenge.

A number of areas were discussed at the workshop including reporting, committee workplan and third party assurances. Review of the HfMA Audit Committee Handbook Supplementary Guidance was revisited as planned with the context of system the key area to be considered in the Committee TOR and workplan for 2023/24.

The full survey responses are provided in Appendix A.

2.3 Membership and Attendance

The attendance from members and attendees is confirmed below. The Committee also held an extraordinary meeting in June 2022 to review and recommend approval of the annual report and financial statements to the Board of Directors.

Member	22.03.22	19.07.22	11.10.22	10.01.23	%
Julian Farmer	✓	✓	✓	✓	100
Nick Brooks	✓	✓	✓	✓	100
Bob Burgoyne	x	✓	✓	✓	75
Karen O'Hagan*	✓	N/A	N/A	N/A	100
Margaret Carney	✓	✓	✓	✓	100
Louise Robson**	N/A	✓	✓	✓	100
Attendees					
Karen Edge	✓	✓	✓	✓	N/A

Member	22.03.22	19.07.22	11.10.22	10.01.23	%
Karan Wheatcroft	✓	✓	✓	✓	N/A
Kate Warriner	✓	N/A	N/A	✓	N/A
Michelle Moss	✓	N/A	N/A	N/A	N/A
Janet Deane	N/A	✓	N/A	N/A	N/A
Nigel Woodcock	✓	✓	✓	✓	N/A
Georgia Jones	✓	✓	✓	✓	N/A
Gary Baines	N/A	N/A	N/A	✓	N/A
James Bradley	✓	✓	✓	✓	N/A
Jennifer Crooks	N/A	✓	N/A	N/A	N/A
Paul McGrath	N/A	✓	N/A	N/A	N/A
Chris Whittingham	N/A	N/A	✓	✓	N/A

**Karan O'Hagan left the Trust in April 2022.*

***Louise Robson joined the Trust in May 2022.*

3. Actions

The following actions are to be progressed.

Action	Responsibility	Timeframe
1. Amend workplan: <ul style="list-style-type: none"> Add Review of Processes for Raising Concerns Add Health Procurement Liverpool as third party assurance Add an item for the July 2023 Audit Committee meeting to submit a summary paper on the risks in relation to the Cheshire & Mersey (C&M) ICB from the Trust's perspective. This should include details of the C&M Committees and how the Trust interfaces with them. Add a specific, regular item on ICB/ICS update 	KWh	April 2023
2. Intranet content: As part of the migration to the new Intranet in 2023-2024, review and enhance the content on the role of Assurance Committees to assist staff knowledge and understanding.	KWh	Dec 2023
3. Amend TOR: <ul style="list-style-type: none"> Amend wording in relation to STP, ICB and ICS as appropriate 	KWh	April 2023
4. Perform a mid-year review of the work plan content with particular regard to developments in ICB/ICS and Joint Committees.	KWh	October 2023

Action	Responsibility	Timeframe
5. Committee to be briefed on the results of any Cheshire & Merseyside wide/ system level audit work by MIAA.	KWh/ NW (MIAA)	October 2023
6. Continue to drive forward improvement in reports including executive summaries setting out the assurances as well as the drivers, risks, and mitigations. To also include the look ahead, scenarios and contingencies. A specific focus on the clinical audit paper was requested.	KWh/ Execs	June 2023

4. Conclusion

The review has confirmed the ongoing effectiveness of the Audit Committee.

In addition to the continued focus on audit and assurance, in 2023/24, the Committee will consider how system assurances and governance will be brought into the Audit Committee remit.

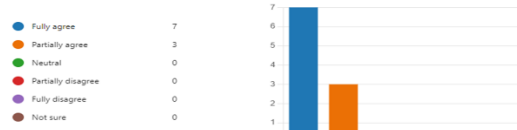
5. Recommendations

The Audit Committee is asked to note the report and confirm that the committee has operated effectively during 2022/23.

Appendix A – Survey Responses

1. The work of the Committee delivers the aims and the purpose detailed in the TOR to monitor the integrity of the Trust's financial statements and to review the Trust's financial and non-financial controls and management systems. The Committee shall take a risk-based approach to the overarching scrutiny of the Trust's assurance, risk and governance structures and processes so that the Board may be provided with assurance in conjunction with assurances received via the Integrated Performance and Quality committees that corporate objectives shall be met. In particular the Committee shall commission and scrutinize assurances that the Trust has and shall continue to operate in accordance with its license conditions and that compliance requirements of NHS Improvement and the Care Quality Commission shall be met, thereby ensuring that the Trust's license to operate is maintained. The Committee will ensure full consideration of the implications for the Trust in respect of the evolution of Sustainability and Transformation Partnerships (STPs) and accountable Care Systems (ACS) - including accounting arrangements, risk management procedures, potential conflicts of interest and information flows. It will also seek assurance on any significant risks associated with mergers and acquisitions

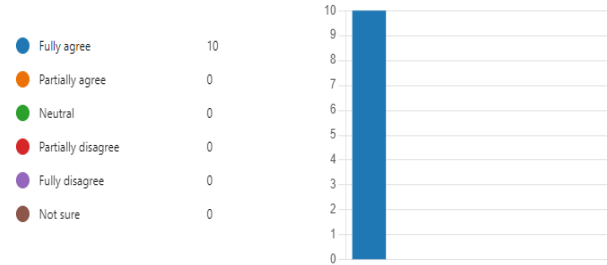
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2. The Committee meets frequently enough to fulfil its objectives

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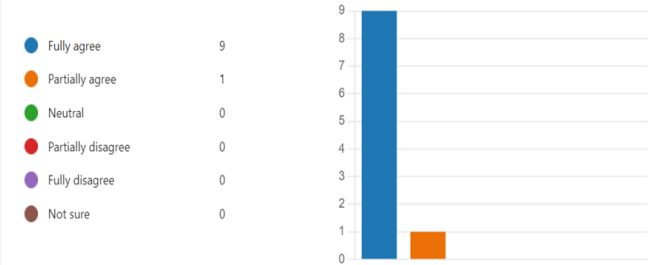
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3. The committee receive relevant and timely information and data

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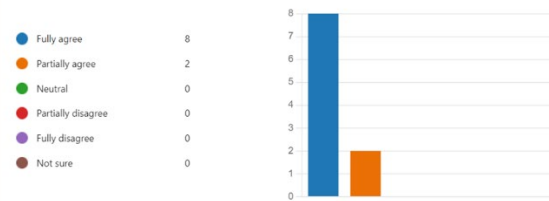
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4. the committee has the right membership in terms of the balance of experience, knowledge and skills to fulfil its role

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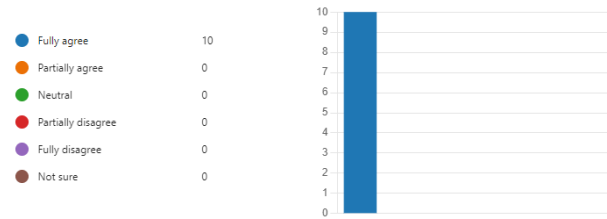
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5. There is good attendance at meetings

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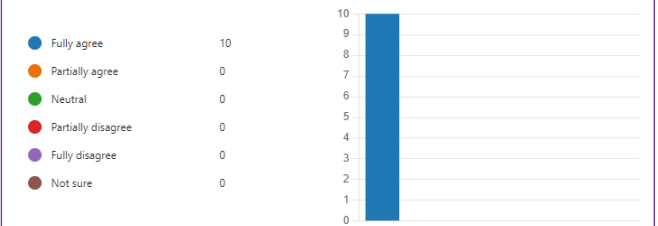
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6. Meeting agendas are manageable in the allotted time

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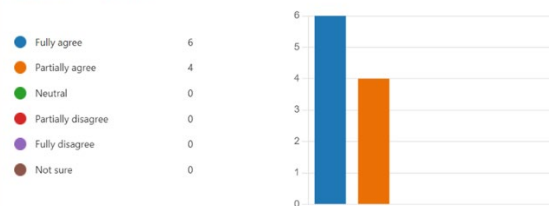
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7. Papers sufficiently provide an executive summary, including assurance, risks, purpose and recommendations

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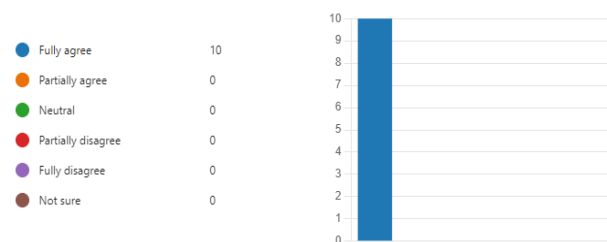
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8. The chair is effective in keeping the focus of the meeting and allowing effective debate

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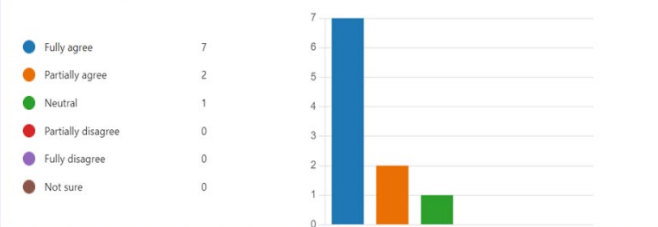
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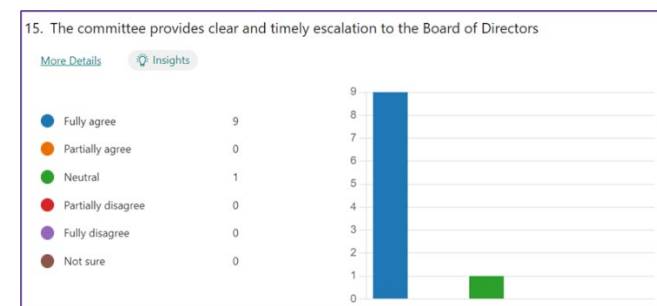
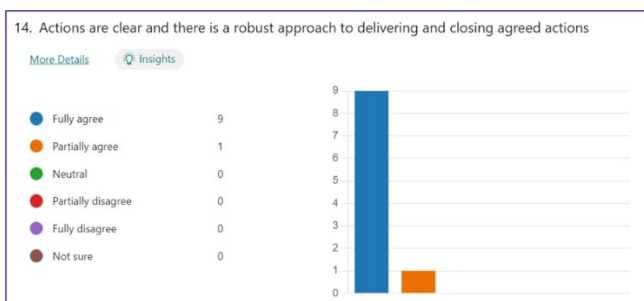
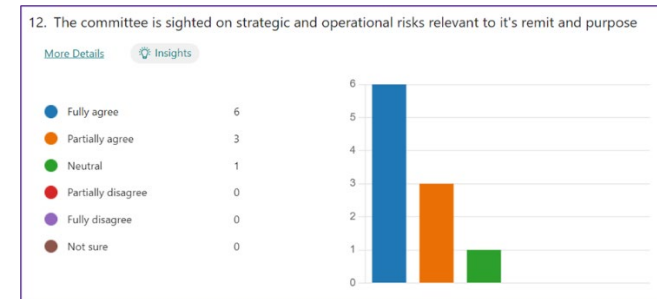
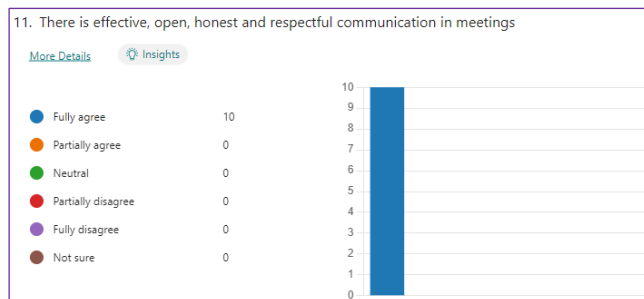
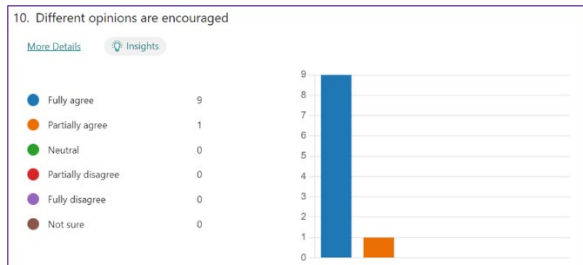


9. All committee members participate fully in meetings in terms of providing effective scrutiny, challenge and support

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16. Are there any areas that you feel are not needed in the workplan of the committee?

“No, there is some overlap of areas with the quality committee (e.g. on data quality and the clinical audit programme), but this is generally appropriate as the perspective is different”

“Performance within the ICS framework”

17. Are there any areas that you feel are missing from the work of the Committee?

- ***“The Committee workplan needs to keep under active consideration the content required within the context of the ICB and wider system working”***
- ***“Focus on the ICS and related issues e.g. joint committees”***
- ***“Assurance on the arrangements for raising concerns”***
- ***“Consideration of interface with ICB governance and risk”***
- ***“Systems working audit and risk implications”***
- ***“We will need from now on to incorporate more consideration on how the trust performs within the Cheshire and Merseyside system. The terms of reference will need to be modified to include this and remove out of date terms such as STPs”***
- ***“may need to consider assurances around impact of future system working”***

18. What do the committee do really well?

10 Responses

ID ↑	Name	Responses
1	anonymous	Constructive challenge by NEDs
2	anonymous	Always focuses on the key issues
3	anonymous	really strong focus on assurance and improvement
4	anonymous	Consider assurances provided and test robustness. Consider wider consequences of risk issues reported.
5	anonymous	Provides assurance on financial and operational risks. Scrutinises internal audit work and outcomes. Enables the right mix of skills to ensure good and effective challenge.
6	anonymous	The committee's interaction with MIAA and the external auditors is notably robust
7	anonymous	Full participation from all committee members with excellent cross section of experience.
8	anonymous	challenge and question the papers in a constructive manor
9	anonymous	It does engage with internal and external auditors both formally and informally.
10	anonymous	Take a structured approach and have clear expectations around reporting in by sub-committee Chairs. Plenty opportunity for NEDs to raise issues and receive responses.

19. What are the opportunities to enhance the committee?

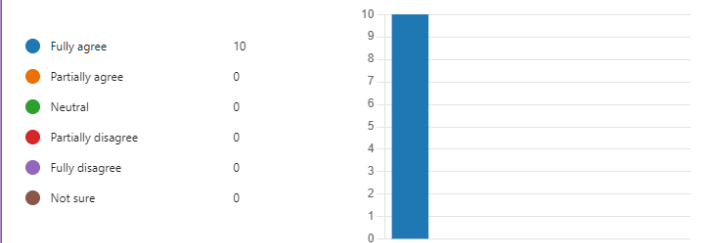
10 Responses

ID ↑	Name	Responses
1	anonymous	No significant observations
2	anonymous	See comments on ICS above
3	anonymous	clearer executive summaries in some papers to focus the key points for Audit Committee
4	anonymous	Improve consistency of papers - length, Exec summary, etc.
5	anonymous	I think it is really effective. May be opportunities for more visibility of the Committee in the Trust given its role?
6	anonymous	No major suggestions.
7	anonymous	none readily identifiable
8	anonymous	not sure
9	anonymous	One major area where there is relatively little engagement of committee members is around the 6 monthly reports on clinical audits. Most members of the committee do not have the expertise to assess the appropriateness of the audits, their success or otherwise or whether there are aspects being missed. Does this need additional input into this area on the committee or instead is that an area that should be reviewed in detail by the Quality committee who then report their analysis to Audit?
10	anonymous	Perhaps around future impact of system working

20. The committee is clear about it's role in relation to other assurance committees

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*A **well structured** Committee, with **active participation** by internal and external; auditors, as appropriate*

*Committee is **well run** with **active participation** and discussion at meetings whilst still keeping to the overall meeting timeframe.*

*The committee operates effectively, is **well chaired** and it's **members contribute appropriately**.*

*One area of possible weakness is that the **Audit committee does not usually have the same level of detailed discussion and deep probing of issues that occur at the other assurance committees**. It could be that this is simply a consequence of the nature of the business that comes to an Audit committee but there is not the same feeling of getting to grips with day to day issues.*

*Looking ahead the **focus on strategic and operational risks will be wider** in terms of system implications and governance. **We need to develop what this means for the Audit Committee** and the information it needs.*

*This is a general comment about all committees. We **need to ensure that there is no unintentional duplication across the committees**. If there is we need to be clear about what the specific role the committee is undertaking in relation to that issue.*