

Audit Committee

Item 6.2a

Subject: Annual Report of the Audit Committee
Date of meeting: 20th March 2017
Prepared by: Lucy Lavan, Director of Corporate Affairs
Presented by: Julian Farmer, Chair of Audit Committee

BAF Ref	Impact on BAF
3	None

1. Introduction

As recommended in the Audit Committee Handbook, this report sets out how the Committee has functioned and supported the Board of Directors at LHCH during 2016/17, by critically reviewing governance and assurance processes on which the Board of Directors place reliance.

The Audit Committee is established under delegation of the Board of Directors with approved terms of reference that are aligned with the *Audit Committee Handbook 2011*, published by the HfMA and Department of Health.

The Committee consists of five non executive directors and this reflects the importance that the Board of Directors places upon the ability of the Committee to enable effective non executive challenge as well as the wider remit of the Committee. The Committee has met on 5 occasions during 2016/17 and has discharged its responsibilities for scrutinising the risks and controls which affect all aspects of the organisation's business.

2. Principal Review Areas

This annual report reflects the key objectives of the Committee as set out in the terms of reference.

2.1 Internal Control and Risk Management

The Committee having reviewed relevant disclosure statements for 2016/17 and other appropriate independent assurance together with the anticipated receipt of the Head of Internal Audit Opinion, external audit opinion at its May 2017 meeting considers that the draft 2016/17 Annual Governance Statement is consistent with the Committee's view on the Trust's system of internal control. Accordingly the Committee supports the recommendation of the Board of Directors approval of the 2016/17 Annual Governance Statement.

The Trust has continued to further embed the risk management systems in place during 2016/17. The Datix system has been implemented during the year, which has led to improved incident reporting and integration of incidents, claims, complaints and risk management. The Committee reviewed the risk management KPI's in July 2016 and January 2017.

The Committee has undertaken a rolling programme of reviews via receipt of annual reports from each assurance committee of the Board of Directors during 2016/17 that test the effectiveness of the Assurance Committees and is satisfied that the assurance mechanisms are fit for purpose in terms of discharging the responsibilities delegated by the Board of Directors.

Other risk priority areas identified by the Committee for review included private patients (limited assurance), combined financial systems (significant assurance), ward review (significant assurance), data quality strategy review (significant assurance), CDMS regulations (2015) review (significant assurance), payroll review (significant), together with a review of Monitor Corporate Governance statement and corporate governance manual. Other reviews including CIP, IG Toolkit and E Rostering are currently in progress.

Where limited assurance was received the committee deliberated the report in full with follow up audits/review of action plans requested.

2.2 Internal Audit

Throughout the year, the Committee has worked effectively with internal audit to ensure that the design and operation of the trust's internal control processes are sufficiently robust.

The Committee has given considerable attention to the importance of follow up in respect of internal audit work in order to gain assurance that appropriate management action has been implemented. The latest follow up report received by the committee in January 2017, noted a degree of progress with 15 out of 36 recommendations implemented. Given the slower rate of implementation of the actions, the Committee tasked management to speak to relevant Executive leads in order to bring an updated position to the next Audit Committee.

The Committee has considered the major findings of internal audit and where appropriate has sought management assurance that remedial action has been taken. To date, 'limited assurance' has been assigned to the private patient review. On this occasion, the Committee requested sight of the full report including management response and attendance at the meeting by the executive lead. This has continued to strengthen the Committee's response to major audit findings in 2016/17 and has ensured that any control weaknesses are understood by the Audit committee and are quickly addressed.

The Committee reviewed and approved the internal audit plan and detailed programme of work for 2016/17 at its April 2016 meeting. This included a range of key risks identified through discussion with Management and Executives and review of the Trust's BAF. Reviews were identified across a range of areas, including combined financial systems, IM&T, Performance, Clinical Quality, Workforce, Governance and Risk.

MIAA has supported the non executive directors over the year through the provision of networking events, policy advice, and Insight updates.

MIAA routinely reviews the papers received by the Board of Directors and minutes of Board meetings to pick up on areas of potential risk for inclusion in the audit programme.

2.3 Counter Fraud

The Committee reviewed and approved the counter fraud work plan for 2016/17 at its April 2016 meeting noting coverage across all mandated areas of strategic governance, inform and involve, prevent and deter and hold to account. The Committee also during the course of the year regularly reviewed updates on proactive counter fraud work noting 3 investigations to date with all 3 now closed.

2.4 External Audit

The Committee routinely receives a progress report from the external auditor, including an update annual accounts audit timetable and programme of work, updates on key emerging national issues

and developments which may be of interest to Committee members alongside a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

2.5 Management Assurance

The Committee has frequently assessed the adequacy of wider corporate assurance processes as appropriate and has requested and received assurance reports from executives, managers and wider Committee representation throughout the year. This has included review of actions in respect of internal audit findings for consultant job planning, private patients, data security and threat and vulnerability management, together with a review of the clinical audit plan, a review of NICE guidance and a review of risk management KPIs.

2.6 Financial Assurance

The Committee has reviewed the accounting policies and annual financial statements prior to submission to the Board and considered these to be accurate. It has ensured that all external audit recommendations have been addressed.

2.7 Other Assurance

The Committee has routinely received reports on Losses and Special Payments and Single Source Tender Waivers.

The Committee has reviewed and updated the Governance Manual including Standing Financial Instructions and Schemes of Delegation and has formally adopted the revised manual.

The Committee has undertaken a rolling programme of Assurance Committee reviews via receipt of an annual report from each assurance committee of the Board of Directors.

Members of the Committee have met privately with the internal and external auditors, without the presence of any Trust officer.

3. Review of the Effectiveness and Impact of the Audit Committee

Last year, the Audit Committee undertook its annual self-assessment via a facilitated workshop session by MIAA on the 9th February 2016 and subsequently produced a report and action plan. This year, as the Trust is currently being assessed again the 'Well Led' Framework, which includes a review of the Audit Committee, no further assessment has been completed. Instead it was agreed at the Audit Committee in January 2017, that the actions identified from the February 2016 review would be revisited to determine the progress made in implementing these. Progress made in implementing these actions is shown in the table below;

Actions	Responsibility Update as at Feb 2017 and Date
A1.Risk indicators: To further develop our risk management dashboard for Audit Committee to provide assurance that our risk management systems and processes are working effectively.	MJ – April 2016 This is now embedded through the Risk Management Policy. In addition, the Datix system has been implemented during the course of the year. The risk management KPI dashboard is now reported to the Audit Committee bi annually. ACTION COMPLETE
A.2. Risk Management and Corporate Governance Committee (RMCGC): The RMCGC reports to the Operational Board but we need to identify which assurance committee/s should receive specific assurances from the RMCGC – eg health and safety, emergency preparedness, business continuity etc	DJ/LL – March 2016 This will be considered as part of the 'Well Led' review and any recommendations made will be implemented. ACTION OUTSTANDING

Actions	Responsibility Update as at Feb 2017 and Date	
A.3. Review all risk and control related disclosure statements: There is now the need to increasingly track the development of these statements from the beginning of the year e.g. significant control issues (failings and strengths) for inclusion in the AGS.	Consideration of 'AGS Issues' to be a standing item on Audit Committee agenda – JF - April 2016	AGS Issues are included as a standing item on each Audit Committee agenda. ACTION COMPLETE
A.4. Monitor integrity of financial statements: Need to reflect upon how the Audit Committee's work fits with IPC's review of financial reports.	Triangulation of Committee work by Assurance Committee Chairs – JF/MS ongoing	Triangulation of Committee work is on the agenda to be discussed as part of the monthly NEDs meetings. In addition the Audit Committee receives a formal annual report from each assurance committee. ACTION COMPLETE
A.5: Review the findings of other sources of assurance: Need to define what is needed by the Audit Committee from certain functions e.g. clinical audit.	Actioned – this is clear in ToRs / business cycle	ACTION COMPLETE
A.6: Outcomes of significant reviews: Further work to be done to plan committee engagement in considering the outcomes of significant reviews.	Review presentation of external visits register – LL from April 16 Triangulation of Committee work by Assurance Committee Chairs – JF/MS/LC/MJo ongoing	The external visits register is presented to the Audit Committee bi annually. In addition, all Chairs of the assurance committees attend the Audit Committee and can therefore request reports as appropriate. ACTION COMPLETE
A.7: Regular report to the Governors: Review whether existing reports could be formalised.	Actioned – JF commenced use of PowerPoint presentation wef March 16	ACTION COMPLETE
A.8: cycle of business: Issues relate to timing and format of external visits register; more tailored external audit updates; refinement of clinical audit reporting; agreement of well-led reporting; overall timing of meetings.	Ongoing review of Business cycle DJ – April 16 and ongoing DJ to discuss potential to improve value of external audit update with GT – April 16	External visits register is now presented bi annually. External audit has tailored their updates. Clinical audit reporting has been tailored and is presented to the Audit Committee bi annually. 'Well Led' Review is in progress. Annual work plan is in place. ACTION COMPLETE.

NED attendance at Audit Committee during 2016/17 has been good as illustrated in the table below:

Member	5th Apr 2016	26 th May 2016	18th Jul 2016	8th Nov 2016	10 th Jan 2017
Julian Farmer (Chair)	✓	✓	✓	✓	✓

Marion Savill	✓	✓	✗	✓	✓
Lawrence Cotter	✗	✗	✓	✓	✓
David Bricknell	✓	✓	✓	✓	✓
Mark Jones	✓	✓	✓	✓	✓
Attendees					
David Jago (Chief Finance Officer)	✓	✓			
Claire Wilson (Chief Finance Officer)			✓	✓	✓
Lucy Lavan (Director of Corporate Affairs)	✗	✓	✓	✓	✓
Jackie Bellard (Grant Thornton)	✗	✓	✗	✓	✓
Jo Whittingham (Grant Thornton)	✓	✓	✓	✗	✓
Tim Crowley (MIAA)	✓	✗	✗	✓	✗
Sarah Blackwell (MIAA)	✓	✓	✓	✓	✓
Michelle Moss (CF – MIAA)	✓	✓	✓*	✗	✗

* Darrel Davies attended on behalf of Michelle Moss.

The Committee has agreed and adopted a Terms of Reference at its November 2014 meeting and is in line with published best practice. A work plan has been developed to support the Committee in effectively discharging its responsibilities as delegated by the Board of Directors at LHCH.

4. Looking Ahead

In the coming year the Audit Committee will focus its attention on the following:

- Embedding the new Datix system to support the risk management processes;
- Implementing any actions arising from the 'Well Led' review;
- Enhancing processes around the follow up of Internal Audit recommendations;
- Maintaining oversight of any implications following changes to the regulatory regime eg Single Oversight Framework and CQC regulations;
- Considering the appointment of External Audit and making recommendations to the Council of Governors
- Ensuring the appropriate induction of the new Non Executive Director, who will chair the Quality Committee.

There will be a continued role for the Committee in testing the effectiveness of formal Board Assurance Committees, given that these are key controls in ensuring the delivery of the Trust's annual plan and discharge of effective governance and risk management.

The Committee will adapt its work programmes in order to respond to any new emerging policy on health and risks associated with the economic and external environment.

5. Terms of Reference

The Audit Committee will retain as extant the current Terms of Reference (attached), subject to updating the names / job titles of policy authors and amending the reference to Monitor to read NHS Improvement.

6. Conclusion

This annual report summarises the work of the Committee in 2016/17 and concludes that that there are no matters that the Committee is aware of at this time that have not been disclosed appropriately.

7. Recommendation

The Audit Committee is asked to review the report and make any amendments prior to submission to the Board of Directors.