

<b>Meeting:</b>	<b>Brighton and Sussex University Hospitals NHS Trust Board of Directors</b>
<b>Date:</b>	<b>27<sup>th</sup> April 2015</b>
<b>Board Sponsor:</b>	<b>Chair, Audit Committee</b>
<b>Paper Author:</b>	<b>Chair, Audit Committee</b>
<b>Subject:</b>	<b>Audit Committee Annual Report</b>

### **Executive summary**

The report summarises the work of the Audit Committee in 2014/15 with regard to its key duties: the Trust financial statements and annual accounts; corporate governance, internal control and risk management; and the work of internal and external audit.

In addition to its standard duties, the Committee has given particular attention to areas where audit reports have found limited assurance, including: recruitment, e-rostering, staff appraisals and waiting list management.

<b>Links to corporate objectives</b>	The Committee is a critical component of the Trust governance and assurance framework in enabling the corporate objective of <b><i>high productivity</i></b>
<b>Identified risks and risk management actions</b>	The Committee reviews the risks relevant to its responsibilities each quarter through the Board Assurance Framework
<b>Report history</b>	The Committee reports to the Board following each of its meetings
<b>Appendices</b>	Audit Committee, terms of reference

### **Action required by the Board**

The Board is asked to note the annual report and approve the revised terms of reference

## **Report to the Board of Directors, 27<sup>th</sup> April 2015 Audit Committee Annual Report 2014/15**

### **1. Purpose**

This report summarises the work of the Audit Committee in 2014/15.

### **2. Membership**

The Committee is chaired by Lewis Doyle, Non-Executive Director. The other members of the Committee are Stephen Woodford and Christine Farnish, Non-Executive Directors.

The Committee is attended routinely by the Chief Financial Officer and senior members of the finance team, and the Director of Corporate Affairs. Other Executive Directors and officers have attended the Committee by invitation, for specific items.

### **3. Terms of reference and review of effectiveness**

The Committee reviewed its terms of reference at its meeting in March 2015, and the Board is asked to approve the revised terms of reference.

Committee members also reviewed the effectiveness of the Committee at the March meeting, using the NHS Audit Committee Handbook self-assessment checklist and taking the views of committee members across a number of themes. The outcome of the self-assessment was positive. The priorities in strengthening the work of the Committee will be a greater focus on data quality and performance, the timeliness of reporting from the other Board Committees, and developing the role and contribution of internal audit.

### **4. Annual Accounts**

The Board delegated authority to the Audit Committee to approve the Annual Accounts for 2013/14 at its meeting in June 2014.

The Audit Director, Ernst and Young reported, at the meeting, that an unqualified opinion would be issued on the Trust's financial statements, with no issues to report. There were no significant issues in relation to economy, efficiency and effectiveness and an unqualified value for money conclusion was also issued. The Trust had also consolidated the Charitable Funds into its financial statements for 2013/14.

Recommendations were made regarding the tracking of research and development projects funding and expenditure, and for tighter controls over stock, which had been discussed at a previous Committee meeting.

External audit also noted that there was excellent engagement between the Trust and Ernst & Young in the audit and the quality of the financial statements and working papers had improved.

The Committee therefore approved the Annual Accounts and noted the Letters of Assurance from the Chair of the Audit Committee and Chief Financial Officer. The Committee also agreed the going concern basis for the 2013-14 accounts

### **5. Quality Accounts Audit**

The Trust Quality Account 'Limited Assurance' audit (which refers to the scope of the audit rather than its conclusion) undertaken by Ernst & Young found a residual issue in relation to

the denominator from which the VTE indicator was derived; now resolved. That apart, the Account was prepared in all material aspects in line with Quality Account regulations.

## **6. Annual Report**

The Committee reviews the Annual Report prior to approval by the Board and presentation to the Annual General Meeting in September. The Committee recommended:

- A greater focus on the work of volunteers could be included in the final report.
- Clarity around taxable expenses, pension benefits in the remuneration report, payments to employee's v payment via limited companies and minor changes to the Annual Governance Statement

## **7. Internal Audit**

The Trust tendered for its internal audit service this year and a new internal auditor, Grant Thornton, was appointed for 2015/16. This reflected a requirement to sharpen and refresh the internal audit function and activity and to address the current and new challenges for the Trust, including the 3Ts programme.

### **Internal Audit Annual Report**

The Director of Internal Audit provided an Audit Opinion for 2013/14 of significant assurance.

#### **Limited assurance audits**

The Committee has given particular attention to audits which found limited assurance including: recruitment, e-rostering, staff appraisals and RTT/access policy.

The Committee welcomed the improvements made in recruitment, which were reported by the Operational Director of HR, while noting that those improvements were contingent on temporary additional resources, pending the additional posts being secured on a permanent basis. The Committee also made a number of recommendations to ensure recruitment practice was consistent with the Trust Values and Behaviours.

The Committee has also discussed the reasons for poor appraisal rates included excessive spans of control, workload and competing priorities and limited data and accountability for conducting appraisals.

The Committee has reviewed the implementation of e-rostering on a number of occasions, and was further advised by the Chief Nurse on developments in March 2015. The resource to support implementation remains limited and implementation is variable with both over and under-performing areas. The Committee recommended that a pragmatic, staged approach to implementation would be beneficial in the long-term.

The Committee discussed waiting list management on three occasions following allegations made by a whistle-blower to the Local Counter Fraud Specialist (LCFS). The commissioned an internal audit review which was inadequate and had requested a further review, which was undertaken by the Deputy Chief Operating Officer (DCOO), which had reported in June 2014. A further external review identified a number of lessons concerning: Board assurance, whistle-blowing, the management of RTT targets, and Board oversight of cumulative risks, which will be taken forward by the Committee in 2015/16.

## **8. Governance**

### **Standing Orders and Standing Financial Instructions**

The Committee reviewed the Standing Orders, Standing Financial Instructions and detailed Scheme of Delegation prior to submission to the Board.

## **9. Procurement**

The Committee reviewed progress with the implementation of the Procurement Strategy which was approved by the Board in February 2013 with a focus on increasing commercial skills and expertise, improving the management of supplier relationships and delivering greater efficiencies. The Chief Procurement Officer reported progress in appointments to the leadership of the procurement team, particularly in senior members with significant commercial expertise.

The Committee also discussed the opportunities for further reductions in expenditure, through increasing the use of purchase orders and improvements in stock management through a single supply chain strategy. It also observed the need for sharper supplier management and the importance of client satisfaction with procurement processes.

## **10. Local Counter Fraud Specialist (LCFS)**

The Trust has a strong LCFS function which reports to each meeting of the Committee. Good progress has been made with regard to Declaration of Interests and Anti-Fraud and Corruption Policy, in addition to the routine reactive and proactive work.

The Committee recommended that LCFS Plan for 2015/16 should include: charitable funds; the governance of 3Ts, including procurement processes; and the pathology Joint Venture and other partnership agreements.

## **11. Information Governance**

The Committee periodically reviews Information Governance and received a progress report which was more progressive and ambitious than those previously presented to the Committee. Significant improvements had been made in awareness and training, and the timeliness of responses to Subject Access Requests. Data destruction processes continue to be developed and the recommendations from the recent internal audit actioned. The fax to email system has also reduced fax activity by 30% within the Trust.

## **12. Schedule of waivers**

The Committee reviews approved waivers at each meeting. Following an increase in the number of waivers, I reviewed two waivers and assessed that the documentation and rationale for both waivers was appropriate.

The Board is recommended to note this report.

**Lewis Doyle**  
**Chair Audit Committee**  
**April 2015**

## **Audit Committee – Terms of Reference**

### **4.1 Summary purpose and authority**

- 4.1.1 In line with the requirements of The NHS Audit Committee Handbook and the NHS Codes of Conduct and NHS Code of Accountability, which are consistent with Monitor's NHS Foundation Trust Code of Governance, an Audit Committee is constituted to provide the Board of Directors with an independent and objective review of its financial systems, financial information, system of internal control and compliance with laws, guidance and regulations governing the NHS.
- 4.1.2 The primary role of the Audit Committee is to conclude upon the adequacy and effective operation of the Trust's overall internal control system. It is the role of the **Executive Management Committees** to implement a sound system of internal control agreed by the Board of Directors. The Audit Committee provides independent monitoring and scrutiny of the processes implemented in relation to governance, risk and internal control. The Committee shall also review and challenge the Trust's Information Assurance Framework to ensure that there are appropriate controls in relation to data quality.
- 4.1.3 The Audit Committee's work shall focus on the framework of risks, controls and related assurances that underpin the delivery of the Trust's objectives. The Audit Committee is a crucial function in reviewing the Trust's external reporting disclosures in relation to finance and internal control, including the annual report and accounts, Annual Governance Statement and required declarations. At least one of its members must have recent and relevant financial experience.
- 4.1.4 Members of the Audit Committee shall be independent non-executive directors who are financially literate and have the personal and professional characteristics necessary to be effective. The Audit Committee shall be informed, vigilant and effective overseers of the financial reporting process. To do this, Audit Committee members must be prepared to invest the time necessary to understand why accounting policies were chosen, how they were applied, and whether the end result fairly represents the Trust's actual status. This means that they need to understand the substance of complex transactions and determine that the financial statements reflect fairly their understanding.

### **4.2 External Auditor**

As an NHS Trust, the External Auditor is appointed and paid for by the Trust. The Audit Committee shall ensure a cost-efficient service. If there are any problems relating to the service provided by the External Auditor, then this shall be raised with the External Auditor if the issue cannot be resolved.

### **4.3 Assessment of effectiveness**

In order to ensure that it is delivering a positive contribution to the overall governance of the Trust, the Audit Committee shall undertake a number of effectiveness reviews each year.

### **4.4 Annual Report to the Board of Directors**

- 4.4.1 The Audit Committee shall produce an annual report to the Board of Directors which details the programme of work conducted each year, adherence to the Committee's terms of reference, and details of the positive contribution the Audit Committee has made to the governance of the Trust.
- 4.4.2 The Audit Committee Chairman shall present this report to the Board of Directors.

#### **4.5 Review of Audit Committee effectiveness**

- 4.5.1 The Audit Committee shall complete an assessment of its effectiveness on an annual basis. A full evaluation shall be performed every three years. In intervening years, a shorter evaluation shall be performed.
- 4.5.2 In addition, members of the Board of Directors who are not members of the Audit Committee shall also assess the effectiveness of the Audit Committee.

#### **4.6 Review of Internal Audit effectiveness**

- 4.6.1 The Audit Committee shall complete the Audit Committee Institute's Assessment of Internal Audit toolkit annually to confirm compliance with best practice. A copy of the toolkit that has been completed by management shall be submitted to assist in this process.
- 4.6.2 The Audit Committee shall receive an annual report from the Head of Internal Audit which reports compliance with Internal Audit KPIs.

#### **4.7 Review of External Audit effectiveness**

The Audit Committee shall complete the Audit Committee Institute's Assessment of External Audit toolkit annually to confirm compliance with best practice

## **Audit Committee Terms of Reference**

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### **1. Background**

- 1.1 The Audit Committee (“the Committee”) is a standing Committee of the Board of Directors. These terms of reference shall apply for as long as the Trust is an NHS Trust and can only be amended by the Board of Directors. On authorisation as an NHS foundation trust, the Board of Directors shall adopt terms of reference which shall have been prepared in advance and which reflect the statutory requirements that apply with respect to NHS foundation trusts.
- 1.2 The overall purpose of the Committee is to:
- (i) review the establishment and maintenance of an effective system of corporate governance, internal control and risk management across the whole of the Trust’s activities that supports the achievement of the Trust’s objectives;
  - (ii) monitor the integrity of the financial statements of the Trust;
  - (iii) monitor the independent auditors' qualifications, independence and performance;
  - (iv) monitor the performance of the Trust's Internal Audit function; and
  - (v) monitor compliance by the Trust with legal and regulatory requirements either directly or through the work of other committees.

### **2. Authority**

- 2.1 The Audit Committee is an advisory body with no executive powers; it is not the duty of the Audit Committee to carry out any function that properly belongs to the Board of Directors or the **Executive Management Committees**.
- 2.2 The Committee is, however, authorised by the Board of Directors to investigate any activity which falls within its duties as set out at paragraph 6 below and to seek any information it requires from staff, who are requested to co-operate with the Committee in the conduct of its inquiries. Requests for work, and reports received from, Internal Audit shall be channelled through the Chief Financial Officer, who reports to the Accountable Officer.
- 2.3 The Audit Committee is authorised to obtain external legal or independent professional advice at the Trust’s expense if it considers this necessary. This shall be authorised by the Chairman of the Committee and shall be within any budgetary constraints imposed by the Board of Directors.
- 2.4 The Audit Committee has the authority to require any member of staff to attend its meetings.

### **3. Membership and Attendance**

- 3.1 The Committee shall be appointed by the Board of Directors from amongst the independent non-executive directors and shall consist of not less than three members, one of whom shall be the Chairman of the Committee.
- 3.2 Membership shall be for no more than three years and renewable for one further three year term subject to the approval of the Board of Directors.
- 3.3 Non-executive members of the Board of Directors not appointed to the Committee in accordance with paragraph 3.1 above shall have the right of attendance. The Chairman of the Board of Directors shall not normally exercise this right. The

Secretary shall circulate minutes of meetings to all members of the Board of Directors.

- 3.4 Additional staff may be invited to attend meetings but shall have no voting rights:
- 3.5 The Director of Corporate Affairs shall attend as Secretary to the Committee.
- 3.6 The Head of Internal Audit and the External Auditor shall have open and confidential access to the Chairman of the Audit Committee.
- 3.7 The Chief Financial Officer and appropriate Internal and External Audit representatives shall attend meetings. The Committee may meet privately with Internal Audit and External Audit representatives before or after each meeting in order to ensure any confidential or other relevant matters are discussed.
- 3.8 Members of the Executive Team detailed above shall be invited to attend to discuss with the Audit Committee the process for assurance that supports the Annual Governance Statement.
- 3.9 The minutes of all Committee meetings shall be formally recorded and submitted to the Board of Directors. A report shall be made following each Committee meeting by the Committee Chairman to the next meeting of the Board of Directors on issues which need to be considered by it.

#### **4. Quorum**

- 4.1 The quorum necessary for the transaction of business shall be two members.
- 4.2 A duly convened meeting of the Committee at which a quorum is present shall be competent to exercise all or any of the authorities, powers and discretions vested in or exercisable by the Committee.
- 4.3 In the absence of the Committee Chairman, the remaining members present shall elect one of themselves to chair the meeting.
- 4.4 Where a Committee meeting:
  - (i) is not quorate under paragraph 4.1 within one half hour from the time appointed for the meeting; or
  - (ii) becomes inquorate during the course of the meeting,the Committee members present may determine to adjourn the meeting to such time, place and date as may be determined by the members present.

#### **5. Meetings**

- 5.1 The Committee shall meet at least quarterly and at such other times as the Chairman of the Committee shall require.
- 5.2 Meetings of the Committee shall be summoned by the Secretary of the Committee at the request of the Chairman of the Committee and/or Chief Executive.
- 5.3 Unless otherwise agreed, notice of each meeting confirming the venue, time and date together with an agenda of items to be discussed, shall be forwarded to each member of the Committee no later than ten days before the date of the meeting.
- 5.4 Supporting papers shall be sent to Committee members and to other attendees, as appropriate five days ahead of the date of the meeting.

## **6. Duties**

### **6.1 Governance, Assurance, Risk Management and Internal Control**

- 6.1.1 The Committee shall review the establishment and maintenance of an effective system of corporate governance, risk management and internal control across the whole of the Trust's activities that supports the achievement of its corporate objectives.
- 6.1.2 The Committee shall review the adequacy of all risk and control related disclosure statements, together with any accompanying Head of Internal Audit statement, External Audit opinion or other appropriate independent assurance, prior to endorsement by the Board of Directors
- 6.1.3 The Committee shall review the findings of other significant assurance functions, both internal and external to the organisation to consider the implications for the governance of the organisation. These shall include, but not be limited to, reviews by:
- (i) Department of Health;
  - (ii) NHS Litigation Authority;
  - (iii) other regulators and inspectors; and
  - (iv) professional bodies with responsibility for performance of staff or functions including Royal Colleges and accreditation bodies
- 6.1.4 The Committee shall review the underlying assurance processes that indicate the degree of achievement of corporate objectives and assurance over quality of data. This shall be through a review of the work of other Committees which provide relevant assurances to support the Audit Committee's own scope of work.
- 6.1.5 The Committee shall review policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements, **including whistle-blowing arrangements**.
- 6.1.6 The Committee shall be notified of, and review, any decision to suspend Standing Orders.
- 6.1.7 The Committee shall utilise the work of Internal Audit, External Audit and other assurance functions but shall not be limited to these audit functions. It shall also seek reports and assurances from the Hospital Management Board and other senior employees as appropriate, concentrating on the overarching systems of corporate governance, risk management and internal control, together with indicators of their effectiveness.
- 6.1.8 The Committee shall report issues in relation to audit, risk or internal control to the Board of Directors on an exception basis in addition to an annual report focused on the effectiveness of the Committee in exercising these duties.

### **6.2 Internal Audit**

- 6.2.1 The Committee shall be satisfied that there is an effective Internal Audit function established by management that meets mandatory **Public Sector Internal Audit Standards** and provides appropriate independent assurance to the Audit Committee, Chief Executive and Board of Directors.

- 6.2.2 The Committee shall be involved in discussions on the appointment and dismissal of the Internal Audit service and its cost, the responsibility for which rests with the Chief Financial Officer (paragraphs 11.1.3 and 11.2.1 of the Standing Financial Instructions). The Committee shall undertake an annual assessment of the effectiveness of the Internal Audit service following receipt of the Internal Audit annual report.
- 6.2.3 The Committee shall review and approve the Internal Audit strategy, operational 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.
- 6.2.4 The Committee shall consider the major findings of Internal Audit work and review the adequacy of proposed actions.
- 6.2.5 The Committee shall monitor the implementation of actions to address all recommendations arising from Internal Audit reports through the use of an overall audit and assurance outstanding recommendation tracker to be reported to each meeting.
- 6.2.6 The Committee shall oversee co-ordination between the Internal and External Auditors to optimise audit resources.
- 6.2.7 The Committee shall monitor the arrangements put in place by management to ensure that the Internal Audit function is appropriately resourced and has appropriate standing within the organisation through on-going monitoring against core Internal Audit KPIs.
- 6.2.8 The Committee shall undertake an annual review of the Internal Audit function against a standardised evaluation toolkit and, in doing so, shall take into account the management review of the function carried out using the same toolkit.
- 6.3 Counter Fraud**
- 6.3.1 The Committee shall ensure that the Trust promotes an effective Counter Fraud culture by ensuring that the policies and procedures for all work related to fraud and corruption as set out in Secretary of State Directions and as required by **NHS Protect** are implemented.
- 6.3.2 The Committee shall review the Trust's procedures for detecting fraud and ensure that arrangements are in place by which staff may, in confidence, raise concerns about possible improprieties in matters of financial reporting and control.
- 6.4 External Audit**
- 6.4.1 The Committee shall review the work and findings of the External Auditor and consider the implications and management's responses to their work. This shall be achieved by the performance of the duties set out in paragraphs 6.4.2 to 6.4.5 below.
- 6.4.2 The Committee shall consider the appointment and performance of the External Auditor. The Audit Committee shall undertake an annual review of the External Audit function against a standardised evaluation toolkit.
- 6.4.3 The Committee shall discuss and agree with the External Auditor, before the audit commences, the nature and scope of the audit as set out in the Annual Plan, and ensure co-ordination, as appropriate, with other External Auditors in the local health economy.

6.4.4 The Committee shall discuss with the External Auditors their evaluation of audit risks and assessment of the Trust and associated impact on the audit fee.

6.4.5 The Committee shall review all External Audit reports, agree the annual audit letter prior to its submission to the Board of Directors and review any work undertaken outside the annual audit plan, together with the appropriateness of management responses.

## 6.5 Financial Reporting

6.5.1 The Committee shall review the annual accounts prior to their submission to the Board of Directors, focusing particularly on:

- (i) the wording in the Annual Governance Statement and other disclosures relevant to the terms of reference of the Committee;
- (ii) application of critical accounting policies and practices, and any changes in them;
- (iii) compliance with accounting standards and applicable reporting guidance including the NHS Manual For Accounts;
- (iv) the clarity of disclosures;
- (iv) unadjusted mis-statements in the financial statements;
- (v) decisions requiring a significant element of judgement; and
- (vi) significant adjustments resulting from the audit.

6.5.2 The Committee shall ensure that the systems for financial reporting to the Board of Directors, including those of budgetary control, are reviewed in relation to completeness and accuracy of the information provided to the Board.

6.5.3 The Committee shall review schedules of losses and compensations, making recommendations to the Board of Directors as appropriate, taking account of delegated limits.

6.5.4 The Committee shall monitor compliance with the Trust's Standing Orders, including through notification and review of any decision to suspend them.

6.5.5 The Committee shall monitor compliance with Standing Financial Instructions through receipt of waivers for all variations.

6.5.6 The Committee shall review schedules of debtor and creditor balances aged more than six months and over £50,000 in value and shall obtain an explanation of the nature of the outstanding arrangement.

6.5.7 The Committee shall review the arrangements in place to secure economy, effectiveness and efficiency in the use of resources

## 6.6 Information Assurance

The Committee shall monitor and review the Trust's Information Assurance Framework through consideration of the document and submissions from the Information Governance Committee, which reports to the Hospital Management Board.

## 7. Reporting arrangements

7.1 The following items shall be considered at each meeting of the Committee:

- (i) update from External Auditor;
- (ii) update from Head of Internal Audit;
- (iii) update from Chief Financial Officer;
- (iv) report from Local Counter Fraud Specialist & Compliance Manager
- (v) summary of business of other Board Committees; and
- (vi) audit recommendation tracker.

7.2 A shall be considered at least every six months.

7.3 The following items shall be considered annually:

- (i) External Audit annual plan for the following financial year;
- (ii) Internal Audit plan for the following financial year;
- (iii) Local Counter Fraud Service plan for the following financial year;
- (iv) Final accounts;
- (v) Board Assurance Framework;
- (vi) Annual Governance Statement;
- (vii) Head of Internal Audit's opinion on internal controls and annual report;
- (viii) External Auditor's audit opinion, ISA (UK&I) 260 Report, audit certificate and findings;
- (ix) review of External Auditor's work and fees;
- (x) Local Counter Fraud Specialist & Compliance Manager annual report;
- (xi) Standing Orders, Standing Financial Instructions and Schemes of Reservation and Delegation;
- (xii) review of any governance aspects not covered above; and
- (xiii) management's assessment of Internal Audit.

7.4 These terms of reference shall be made publicly available on the Trust's website.

#### 7.5 **Annual review process**

7.5.1 The Committee shall undertake a self-assessment of its effectiveness on at least an annual basis. This shall be based on the Department of Health's publication The NHS Audit Committee Handbook, Monitor's publication The NHS Foundation Trust Code of Governance and other best practice material including the Audit Committee Institute's Assessment of Audit Committee Effectiveness. This may be facilitated by independent advisors if the Committee considers this appropriate or necessary.

7.5.2 The Chairman of the Committee shall conduct an annual appraisal of the members of the Audit Committee in their roles as such and shall report the outcome to the Chairman of the Board of Directors.

7.5.3 These terms of reference shall be reviewed by the Board of Directors on at least an annual basis