

<b>SUMMARY REPORT</b>		South Tees Hospitals  NHS Foundation Trust
<b>Board of Directors</b>		Date of meeting 20 May 2015
Subject	Audit Committee Annual Report 2014/15	
Prepared by	Mr David Kirby Audit Committee Chairman / Non Executive Director Mr David Kirby	
Approved by	Audit Committee members	
Presented by	Mr David Kirby	
Name of meeting considered/approved by	Audit Committee	

<b>Purpose</b> In line with good practice recommended in the Audit Committee Handbook (2011), the purpose of this report is to inform the Board of Directors of the activities of the audit committee during the financial year 2014/15.	Decision	
	Approval	●
	Information	●
	Assurance	●

<b>Executive Summary</b>
<p>The report covers the activity of the audit committee for the 2014/15 financial year. It is intended to provide assurance to the Board on the level of adherence to the agreed terms of reference, and to summarise the work undertaken as an independent sub-committee of the Board. This annual report to the Board follows the recommendations of the NHS Audit Committee Handbook 2011.</p> <p>The Committee have reviewed their Terms of Reference (ToR) and taken account of the Deloitte Governance review, which made no recommendations that affected Audit Committee ToR and accordingly have made no changes.</p>

<b>Next Steps</b>
The Board of Directors is asked to note the attached report, which was approved by the audit committee on 20 May 2015, and to confirm the attached ToR.

<b>Supports Trust Strategy Map in the following areas</b>							
<b>quality &amp; patient safety</b>		<b>business sustainability</b>		<b>operational excellence</b>		<b>organisational capability</b>	
deliver integrated care		improved cost control		improved patient flow		improved information	●
forefront of clinical innovation		increased productivity		improved innovation processes		continuous service improvement culture	
specialised services development		increased revenue & market share		strong governance & risk management		workforce development	
service quality and safety		enhanced services				strong partnerships & engagement	

<b>If a key risk(s) has been identified, please describe below</b>



**Audit Committee  
Annual Report**  
1 April 2014 to 31 March 2015



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# Purpose

**The audit committee is responsible for monitoring and reviewing matters such as the integrity of financial statements of the trust, the system of internal control, the annual governance statement and the internal audit function**

In line with good practice recommended in Monitor's NHS Foundation Trust Code of Governance and the Audit Committee Handbook (2011), this report aims to inform the Board of Directors of the activities of the audit committee for the financial year 2014/15.

In order to present a complete view of the 2014/15 financial year the report also includes the work dealt with by the committee in April and May 2015/16 relating to the annual financial accounts and the annual internal audit plan for the year 2014/15.

# Introduction

## Constitution of the Committee

The audit committee is a formally constituted committee of the trust and is recognised as such within the trust's standing orders. It is a non-executive committee and, as such, has no executive powers other than those specifically delegated within its terms of reference.

The committee comprises 4 (minimum 3) non-executive directors (one of whom acts as committee chair). Additionally, standing invitations to attend the meetings are extended to trust officers (chief executive, director of finance and performance, director of communications and engagement and the director of quality) along with external attendees Audit North (director of audit and assistant director of audit) and the external auditors (engagement lead and engagement manager). The company secretary, whose role and portfolio subsequently changed to executive director of communications and engagement in September 2014, was the formal secretary for the committee throughout the year and ensured that co-ordination of papers and minutes were produced in accordance with the chairman of the committee.

The committee also has the power to require the attendance of any director or staff member of the trust at its meetings as necessary.

## Duties of the Committee

In line with the recommendations of the Audit Committee Handbook (2011) the duties of the audit committee were reviewed during the year for approval by the Board in May 2015 as part of the annual review of Terms of Reference (ToR).

The ToR had been prepared in accordance with Monitor's guidance on "The NHS Foundation Trust Code of Governance", and no further changes have been made to the ToR since they were adopted by the Board of Directors on 24 April 2014.

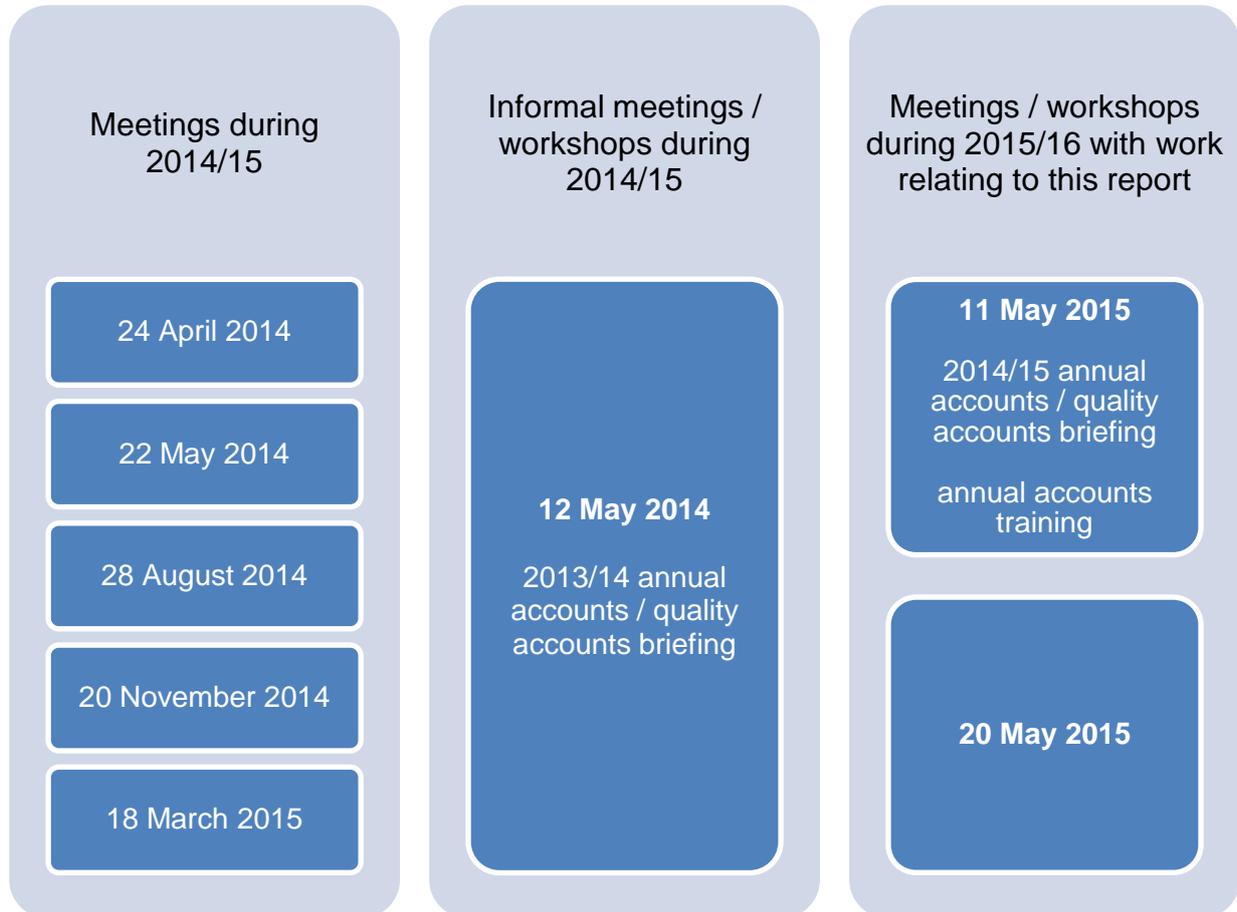
The ToR adopted by the Board of Directors provide the committee with the authority to investigate any activity within its ToR and seek information required whilst also obtaining external legal or other independent advice it considers necessary. A copy of the ToR is attached as appendix 2.

Minutes of all audit committee meetings are presented to, and as appropriate discussed at the Board of Directors by the audit committee chair.

## Committee Meetings

The Committee met formally 5 times during 2014/15 which fulfilled the ToR requirements of meeting not less than 3 times per year.

During the year the committee held a number of informal meetings/workshops to support it in delivering its ToR.



## Training

Members of the committee attended the informal meetings / workshops outlined above, along with a number of Board sessions.

This training has helped members of the committee discharge their roles. In addition the committee chair attends on a regular basis, the North East Audit Committee Chair Forum.

# Members

The audit committee is chaired by the trust's non-executive deputy chairman and has a further three non-executive directors in its membership as below:

- Mr David Kirby CPFA – chairman
- Mrs Amanda Hullick (from September 2014)
- Mr Hugh Lang
- Mr Jonathan Smith (from November 2014)
- Ms Henrietta Wallace (until July 2014)

## Members interests

Name		David Kirby	Hugh Lang	Amanda Hullick	Jonathan Smith	Henrietta Wallace
Position		NED/Deputy Chairman	NED	NED	NED	NED
Voting or non voting member		Voting	Voting	Voting	Voting	Voting
Date form completed / signed off		31 March 2015	31 March 2015	31 March 2015	31 March 2015	
Q1	Directorships or positions of authority	No	No	No	Yes, as previous Q1 Q2 responses	
Q2	Employment and Consultancy	No	No	No	Yes, IT Director / Programme Director at Yeovil DH	Trustee - UNITE Mediation Ltd - charitable organisation
Q3	Commercial Interests	No	No	No	No	
Q4	Membership (of any public body, organisation, charity or pressure group whose work is related to the business of the Trust)	No	No	No	No	
Q5	Donations and Sponsorship	No	No	No	No	
Q6	Other interests	No	No	No	No my family has received services and support from CLIC Sargent and Rainbow Trust both Children's Cancer Charities. We have no formal business or employment links but having received services we have helped raise funds and awareness for them.	



# Review of the work of the audit committee 2014/15

## Audit Committee Business Plan

The committee has an annual business plan which shows how it plans to discharge its responsibilities under its terms of reference.

This provides the ability for the committee to plan and monitor its work more effectively throughout the year.

- The director of finance provided regular updates on technical accounting issues and other relevant topics, which could have an impact on the trust's finances. This included the change to asset values arising from the exclusion of VAT from the valuation.
- The committee continued to receive updates concerning the assurance framework and identified the need to clearly link the assurance framework, risks and risk management with the internal audit plan.
- The Committee received regular internal audit, counter fraud and external audit progress reports and updates.
- The committee reviewed the trust whistle blowing policy, system and processes for CQC registration, quality accounts, annual report, financial accounts, annual governance statement, charitable fund accounts and statement on trust compliance policies.
- The director of operational services was invited to the committee to provide assurance on the status of the emergency plan and the business continuity policy.
- The director of nursing attended the committee to provide assurance regarding the system and process for determining safe staffing levels.
- The committee received updates on controls and processes around budgetary spend and the CIP programme.
- The head of facilities management attended the committee to provide assurance regarding the audit of car parking income and transfer of responsibilities to the trust.
- The committee reviewed its terms of reference, business plan and effectiveness.
- The committee reviewed the clinical audit programme and process of clinical audit management.



## Work of internal audit

The committee ensured that there was an effective internal audit function established by management that met mandatory internal audit standards and provided appropriate independent assurance to the audit committee, chief executive and the board of directors.

The internal audit service is provided to the trust by Audit North. Stuart Fallowfield (deputy director of audit), has attended committee meetings throughout the year.

The internal audit plan was agreed in May 2014, with revisions agreed during the year with the Audit Committee.

Audit North have presented regular progress reports to the committee on internal audit activity within agreed 2014/15 internal audit plans.

The Audit North annual report for 2014/15 was presented to the committee in May 2015. An overall 'significant assurance' opinion for the year to support the annual governance statement. The head of audit opinion also highlighted a number of areas for consideration for potential inclusion within the Annual Governance Statement.

The annual report also provided information on the positive performance of internal audit.

Other areas of internal audit support to the audit committee during 2014/15 included:-

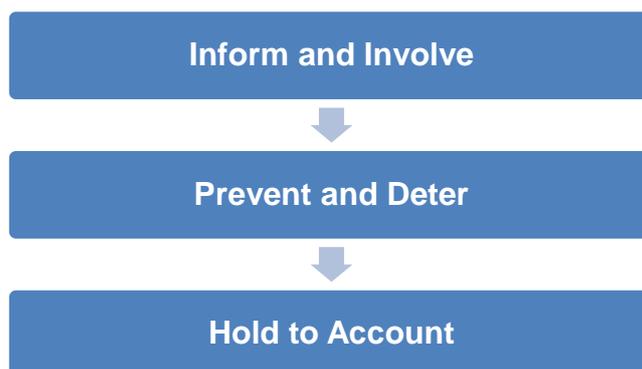
- Status reports regarding the implementation of internal audit recommendations on behalf of the committee.
- a review of the systems of financial reporting to the Board.
- agreed a protocol between internal audit and external audit.

As part of the agenda for each meeting the committee meets privately with internal audit in accordance with best practice described within the audit committee handbook.

## Work of the counter fraud service

The trust purchases the local counter fraud service (LCFS) provision from Audit North. The nominated lead LCFS for the trust is Ray Scanlon. The Audit Committee receives regular progress reports on LCFS activity from Graham Thompson (Audit North's Counter Fraud lead).

A revised counter fraud strategy / plan for 2014/15 was presented to the committee during the year, which detailed both LCFS and trust actions to develop the service during 2014/15 and beyond in accordance with Secretary of State Directions. These set out the three specific objectives described below: -



- For 2014/15 the trust purchased 100 days of counter fraud resource, with additional time being purchased for undertaking further investigations, if required.
- For the period 1 April 2014 to 31 March 2015 the LCFS received three referrals, which were reviewed and investigated in accordance with agreed protocols.
- One of the two referrals outstanding from the previous years was concluded in year, the other continues to be progressed.
- The LCFS reviewed and provided support to improve the trust's control environment to prevent fraud occurring, based upon intelligence of targeted areas of fraud risk, specifically bank mandate and recruitment frauds.
- Informed the audit committee throughout the year of significant fraud related issues and counter fraud successes including comparative and anonymised information available from our other clients and other external points of interest.

## Work of external auditors

The audit committee reviewed and monitored the external auditor's independence and objectivity and the effectiveness of the audit process.

The external audit service is provided by PwC. Greg Wilson, Partner at PwC is the engagement partner responsible for the overall delivery of the external audit service. Greg is supported by Nicola Wright, Audit Director and Kelly Douglas, Audit Manager.

PwC presented the external audit plan to the committee in November 2014 and have attended all meetings during the year.

During the year, PwC have undertaken the following work:

- conducting audit procedures to check that the annual report and accounts comply with International Financial Reporting Standards (IFRS) and Monitor's Foundation Trust Annual Reporting Manual (FT ARM);
- considered whether disclosures in the Annual Governance Statement (AGS) are appropriate and whether or not there are any inconsistencies between the AGS and the financial statements and other work;
- reported on an exception basis on the Trust's arrangements for securing economy, efficiency and effectiveness in its use of resources;
- provided assurance on the Trust's Quality Report in line with Monitor requirements; and
- undertaken procedures as required for the National Audit Office (NAO) group reporting.

The result of the external auditor's work was presented to the committee as part of the ISA260 report in May 2015.

PwC are also the external auditors for the Charitable Funds, the 2014/15 audit plan was presented to the committee in March 2015.

Other areas of external audit support to the audit committee during 2014/15 included:

- status reports regarding the progress of the external audit plan;
- maintained the working protocol between internal audit and external audit; and
- provided thought leadership and health sector updates.

# Best practice statements in meeting the audit committee terms of reference

## Annual governance statement 2014/15

The Committee has reviewed the annual governance statement and, as supported by the head of internal audit opinion, consider that the annual governance statement is consistent with the committee's view of the trust's system of control and thus can support the Board's approval of the statement.

## Risk management

The quality assurance committee receives regular updates on the risk register and there is a co-ordinated approach to the updating of the risk register and the assurance framework. There are no areas of risk management that have been brought to the audit committee's attention that cause concern.

## Review of assurance framework 2014/15

The committee has reviewed the assurance framework in order for it to support the trust's annual governance statement. The development of the assurance framework is an on-going matter in the trust and the audit committee will continue to review the framework and ensure firm links are made with the internal audit plan.

## Areas of duplication or omission in the systems of governance

No areas of duplication or omission have been brought to the committee's attention.

## The financial position and financial reporting systems of the organisation

The Committee received reports from internal and external Auditors and were assured by these.

## Major breakdown on internal control that has led to a significant loss in one form or another

No major breakdown in internal control leading to significant loss has been brought to the Committees attention.

## Any major weakness in the governance system that has exposed or continues to expose the organisation to unacceptable risks

No major weakness in governance systems exposing the organisation to unacceptable risk have been brought to the committee's attention.



## Other matters

### Internal / internal audit

During the year the committee supported the council of governors and the director of finance and performance in an external tender process for both the external audit, internal audit and counter fraud functions.

Following this competitive process the council of governors appointed KPMG to replace PricewaterhouseCoopers (PwC), as trust external auditors for three years, with an option to extend for up to a further two years. The director of finance and performance appointed PwC to replace Audit North as trust internal auditors for three years, with an option to extend for up to a further two years, and Audit North as counter fraud providers for the same term. All appointments to commence from the 2015/16 financial year.

The audit committee would like to put on record its thanks and appreciation of the services provided to the committee for 2014/15 and previous years by Audit North and PwC as internal and external auditors respectively.

### Reporting to the Board

Arising from its work the committee have referred three matters to Board during the year:-

- That the Board should consider how it receives whistleblowing incidents, action taken and the outcome.
- That the Board should consider through the finance and investment committee, the following measures of financial sustainability:-
  - develop clear long term goals that outline where the business needs to stand operationally and financially in the future
  - develop and maintain strong stakeholder relationships
  - diversify income streams
  - build financial reserves and forward assess and manage risks to the organisation
  - strategically manage and reduce the organisation cost base in line with achieving necessary service standards.
- Given the increase in outsourcing of services and PFI management need, the Board should consider the adequacy of contract management resource in the organisation.

## Looking Forward for 2015/16

The committee will look to continue its work in accordance with its business plan. This will include the following:-

Continuing development of the assurance framework and use as a tool for Audit Committee focus

Assurance regarding the effectiveness of contract management

Patient level costing and service line management

The effectiveness of financial reporting

Continuing review of audit committee effectiveness

Assurance relating to the new requirements around staffing levels, duty of candour, governance and financial sustainability

# Appendix 1 - Audit activity and fees 2014/15

## PwC

PwC are the external auditors for the trust and were appointed through a tendered process in 2011 by the Council of Governors in a joint exercise with the audit committee. The appointment is for a three-year term with a one plus one year extension available under the terms of the contract subject to the agreement of both parties.

The total annual contract value for 2014/2015 is split as follows:

- 1 External audit fee - £47,950\*
- 2 Fees for audit of consolidation with Charity - £5,150
- 3 Quality Accounts fee - £11,950

*\*This does not include extended procedures for going concern.*

The accounts for 2014/15 were the fourth year audited during the audit contract term.

## Audit North

2014/15 proposed (£000)	Area of work	2014/15 actual (£000)
163	Internal Audit Service	163
26	Counter Fraud Services	26

# Appendix 2 - Audit committee terms of reference

1	<b>Name of committee / group</b>	Audit Committee
2	<b>Purpose</b>	<ul style="list-style-type: none"> <li>The purpose of the audit committee is to assist the Board to deliver its responsibilities for the conduct of public business and the stewardship of funds under its control. In particular, the committee will review systems of governance, risk management and internal control to enable the Board to gain assurance that appropriate systems are in place.</li> <li>The audit committee is a non-executive committee of the Board and has no executive powers, other than those specifically delegated in these terms of reference.</li> </ul>
3	<b>Connectivity – reports to and rationale</b>	<ul style="list-style-type: none"> <li>Board of Directors</li> </ul>
4	<b>Connectivity – reports from</b>	<ul style="list-style-type: none"> <li>Internal audit</li> <li>External audit</li> <li>Individual corporate directors</li> <li>Other relevant significant assurance functions.</li> </ul>
5	<b>Chair</b>	<ul style="list-style-type: none"> <li>David Kirby</li> </ul>
6	<b>Vice chair</b>	
7	<b>Management lead</b>	<ul style="list-style-type: none"> <li>Caroline Parnell</li> </ul>

<p>8      <b>Membership</b></p> <ul style="list-style-type: none"> <li>• The Committee shall be appointed by the chairman of the Board from amongst the non executive directors of the trust and shall consist of not less than three members.</li> <li>• One of the members will be appointed chair of the committee by the chair of the Board.</li> <li>• The Board should satisfy itself that at least one member of the audit committee has recent and relevant financial experience.</li> <li>• The chair of the trust shall not be a member of the committee.</li> <li>• The chair of the trust may be invited to attend meetings as appropriate.</li> <li>• The audit committee can require the attendance of any director or staff member of the trust at its meetings.</li> <li>• The chief executive, director of finance and appropriate internal and external audit representatives shall normally attend meetings.</li> </ul>	<ul style="list-style-type: none"> <li>• David Kirby</li> <li>• Amanda Hullick</li> <li>• Hugh Lang</li> <li>• Jonathan Smith</li> <li>• Henrietta Wallace</li> </ul>
<p>9      <b>Quorum</b></p>	<ul style="list-style-type: none"> <li>• A quorum shall be two members. This to consist of the Committee chair and one other member.</li> </ul>
<p>10      <b>Frequency of meetings</b></p>	<ul style="list-style-type: none"> <li>• Not less than three times a year. The external auditor or head of internal audit may request a meeting if they consider that one is necessary.</li> <li>• At least once a year the committee will meet privately with the external and internal auditors without executive board members present.</li> </ul>

11	<b>Secretary servicing committee</b>	<p>The director of communications and engagement shall:-</p> <ul style="list-style-type: none"> <li>• act as secretary to the committee,</li> <li>• ensure that appropriate support is provided to the chair and members of the committee, and that minutes of the proceedings are taken.</li> <li>• ensure appropriate development and training of committee members.</li> </ul>
12	<b>Review date for terms of reference and membership</b>	<ul style="list-style-type: none"> <li>• Annually</li> </ul>
13 <b>Aims, objectives and duties</b>		
<p>13.1 <b>Financial reporting</b></p> <p>The audit committee will monitor the integrity of the financial statements of the trust and any formal announcements relating to the trust's financial performance.</p> <p>13.1.1 The committee shall review the annual report and financial statements before submission to the Board, focussing particularly on:</p> <ul style="list-style-type: none"> <li>a The wording in the Annual Governance Report and any other disclosures relevant to the terms of reference of the committee.</li> <li>b Changes in and compliance with accounting policies, practices and estimation techniques.</li> <li>c Unadjusted misstatements in the financial statements.</li> <li>d Significant judgements in preparation of the financial statements.</li> <li>e Significant adjustments resulting from the audit.</li> <li>f Letter of representation.</li> <li>g Qualitative aspects of financial reporting.</li> </ul> <p>13.1.2 The committee should ensure that the systems for financial reporting to the Board, including those of budgetary control are subject to review as to the completeness, accuracy and effectiveness of the information provided to the Board.</p>		

**13.2 Governance, risk management and internal control**

The committee shall review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the trust's activities (both clinical and non clinical) that supports the achievement of the trust's objectives, in particular:

13.2.1 Prior to endorsement by the Board the committee will review the adequacy and effectiveness of:

- a The annual governance report and any other risk or disclosure statements together with any Head of Internal Audit statement, external audit opinion and /or other independent assurances.
- b Any proposed changes to standing orders, SFIs and scheme of delegation
- c Schedules of losses and compensation

13.2.2 The Committee will review the adequacy and effectiveness of:

- a The underlying assurance processes that indicate the degree of the achievement of corporate objectives and the effective management of principal risks.
- b The policies and processes for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self certification.
- c The policies and procedures for all work related to fraud and corruption as set out in the Secretary of States Directions and as required by the NHS Counter Fraud and Security Management Service (CFSMS).
- d The arrangements for countering fraud and review of the outcomes of counter fraud work.

**13.3 Internal audit**

The Committee shall ensure that there is an effective internal audit function, which meets government internal audit standards and provides appropriate independent assurance to the audit committee, chief executive and the Board of Directors. This will be achieved by:

13.3.1 An annual review of internal audit which will consider:

- a The effectiveness of internal audit
- b Ensuring that the internal audit function is adequately resourced and has appropriate standing within the trust
- c The cost of the audit
- d Any questions of resignation and dismissal

13.3.2 Review and approval of the internal audit strategy, operational plan and more detailed programme of work, ensuring that this is consistent with the audit needs of the trust as identified in the assurance framework.

13.3.3 Consideration of the major findings of internal audit work, their recommendations, management's response and implementation.

13.3.4 Ensuring co-ordination between the internal and external auditors to optimise audit resources.

**13.4 External audit**

The audit committee will review the work and findings of external audit and consider the implications of and management responses to their work. To be achieved by:

13.4.1 Discussion and agreement with the external auditor before the audit commences, of the nature and scope of the audit in the annual plan, and ensuring co-ordination as appropriate with other external auditors in the local health economy.

13.4.2 Review of all external audit reports, together with the appropriateness of management responses to audit findings and recommendations.

13.4.3 Agreement of the annual audit letter before submission to the Board and any work carried outside the annual audit plan.

13.4.4 The annual review by the committee of the performance of the external auditor.

13.4.5 The committee will also develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm.

13.4.6 The committee will make recommendations to the board of governors, in relation to the appointment, re-appointment and removal of the external auditor and approve the remuneration and terms of engagement of the external auditor.



13.5	<b>Arrangements by which staff raise concerns</b>
13.5.1	The audit committee will review arrangements by which staff of the trust may raise, in confidence, concerns regarding health and safety, malpractice or wrongdoing where the interests of others or of the organisation itself are at risk.
13.6	<b>Other assurance functions</b>
13.6.1	The audit committee will review the findings of any other relevant significant assurance functions, both internal and external to the trust and consider the implications to the governance of the trust.
13.6.2	The committee will review the work of other committees within the trust whose work can provide relevant assurance to the audit committee's
13.6.3	The committee will wish to satisfy themselves on the assurance that can be gained from the clinical audit function.
13.7	<b>Reporting</b>
13.7.1	The committee will report to the Board annually on its work in support of the statement of internal control, specifically commenting on the fitness for purpose of the assurance framework, the completeness and embeddedness of risk management in the trust, the integration of governance arrangements and the appropriateness of the evidence compiled to demonstrate fitness to register with the CQC and the robustness of the processes behind the quality accounts.
14	<b>Delegated authority and decision making powers</b>
•	The committee is authorised by the Board to investigate any activity within its terms of reference.
•	It is authorised to seek any information and documentation it requires from any employee of the trust and all employees are directed to co-operate with any request made by the committee.
•	The committee is authorised by the Board to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary on any matter.
15	<b>Work programme</b>
	To be agreed annually by the committee.

Signed \_\_\_\_\_ Dated \_\_\_\_\_

