

Oxfordshire Clinical Commissioning Group Board Meeting

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| Date of Meeting: 25 May 2017 | Paper No: 17/40a |
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| Title of Paper: Audit Committee Annual Report 2016/17 |
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| Paper is for: (please delete tick as appropriate) | Discussion | <input checked="" type="checkbox"/> | Decision | <input checked="" type="checkbox"/> | Information | <input checked="" type="checkbox"/> |
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Purpose and Executive Summary:

The NHS Audit Committee handbook 2014 sets out best practice for Audit Committees and recommends that Audit Committees should assess their own performance and effectiveness annually and report the results to the Board.

This Report for 2016/17 is submitted to the Board to provide assurance that the Audit Committee is operating effectively and in accordance with the terms of reference.

In particular, the Board's attention is drawn to the Conclusion and the Looking Forward sections at the end of the document.

Financial Implications of Paper:

None

Action Required:

The Board is asked to note the Audit Committee Annual Report and to consider whether any further matters should be considered by the Committee in the current year.

The Board is asked to approve the updated Terms of Reference set out in Appendix A

| OCCG Priorities Supported (please delete tick as appropriate) | |
|--|------------------------------|
| <input checked="" type="checkbox"/> | Operational Delivery |
| <input checked="" type="checkbox"/> | Transforming Health and Care |
| <input checked="" type="checkbox"/> | Devolution and Integration |
| <input checked="" type="checkbox"/> | Empowering Patients |
| <input checked="" type="checkbox"/> | Engaging Communities |
| <input checked="" type="checkbox"/> | System Leadership |

Equality Analysis Outcome:
Not Applicable

Link to Risk:

The Audit Committee is responsible to the Board (in conjunction with the Finance and Quality Committees) for reviewing the risks relating to the business and activities of the CCG and ensuring the levels of risk and mitigations of those risks are appropriate and are properly recorded in the Risk Register of the CCG.

Author: Roger Dickinson, Audit Committee Chair

Clinical / Executive Lead: Catherine Mountford, Director of Governance

Date of Paper: 16 May 2017

Draft Annual Report from the Audit Committee June 2016 to May 2017

Executive Summary

As a formal sub-committee of the Board and in accordance with best practice, the Audit Committee present an Annual Report to the Board. The report covers the twelve-month period from June until the May meeting to ensure it covers the work on producing and agreeing the annual report and accounts.

This report was considered at the Audit Committee meeting on 20th April 2017 and is now submitted to the Board to provide assurance that the Committee has been operating effectively and in accordance with its terms of reference.

Introduction

The NHS Audit Committee handbook 2014 sets out best practice for Audit Committees and recommends that Audit Committees should assess their own performance and effectiveness annually and report the results to the governing body. Consideration should be given to a number of over-arching key measures of success e.g.:

- What difference has the Committee made to the organisation's governance, risk and control environment?
- Did the Committee encounter any surprises during the year e.g. unexpected adverse inspection reports?
- Did the committee have to re-focus its planned activities during the year – if so was this a pro-active decision or for reactive reasons?

Overview of Committee

The Audit Committee is a formal sub-committee of the Board with defined Terms of Reference. The terms of reference were reviewed by the Committee at its February 2017 meeting for approval at the next Board meeting. They are attached as Appendix A.

Membership and meetings

There were 3 regular meetings and two additional meetings in the period covered by this report (June 2016 to May 2017) all of which were quorate.

The membership of the Committee has been as follows:

| Member | Title | Attendance |
|-------------------------|----------------------------|------------|
| Miles Carter | Locality Clinical Director | 2/5 |
| Roger Dickinson (Chair) | Lay Vice Chair | 5/5 |
| Mike Delaney | Lay member | 5/5 |
| Duncan Smith | Lay member | 5/5 |

The following officers of the CCG attended the Committee during the year: Chief Finance Officer and Director of Governance. In addition, the CCGs Internal Auditors (TiAA), external Auditors (Ernst and Young), Local Counter Fraud Specialists (TiAA) and Security Management Specialists (TiAA) attended to present the results of their work during the year.

Duties within Terms of Reference

The purpose of the Committee is:

“to provide assurance and advice to the Clinical Commissioning Group (CCG) Board and the accountable officer, on the proper stewardship of resources and assets, including:

- *value for money,*
- *financial reporting,*
- *the effectiveness of audit arrangements (internal and external),*
- *risk management,*
- *internal control*
- *and integrated governance arrangements within the CCG.*

In particular, the Committee will review the CCG’s annual audited financial statements and the CCG’s annual statements on internal control and governance and its compliance and recommend them to the governing body.”

The work of the Committee in discharging its duties was as follows:

Integrated governance, risk management and internal control

The Committee critically reviewed the maintenance of an effective system of integrated governance, risk management and internal control, and financial reporting. It reviewed the work undertaken by both the Quality Committee and Finance Committee by reviewing the minutes and feedback from members of the Committees

In particular, the Committee reviewed:

- The CCG Strategic Risk register (Assurance Framework) and relevant operational risks and related risk action plans at every main meeting, to ensure that risks were appropriately prioritised and adequately controlled and mitigated, and that high and extreme risks were communicated to the CCG Board.
- The arrangements for carrying out the delegated functions for the commissioning of primary care
- Changes to the governance arrangements for the Oxfordshire Transformation Programme
- Information Governance update and Toolkit submission
- The Annual Governance Statement (April 2016) together with appropriate independent assurances, prior to endorsement by the Board.
- Regular reports on the work and findings of the NHS and Local Counter Fraud and Security Management Service.
- Revisions to the Conflict of Interest Policy to ensure it complied with the revised statutory guidance issued by NHS England in June 2016
- Arrangements to appoint an Auditor Panel to enable re-procurement of internal and external audit suppliers.
- Review and updating of the Scheme of Delegation, Standing Orders and Prime Financial Policy.

Internal audit

The Committee ensured that there was an effective internal audit function that met mandatory NHS Internal Audit Standards and provided appropriate independent assurance to the Committee. This was achieved by:

- Reviewing and approving the internal audit strategy, operational plan (and associated cost) and more detailed programme of work, to ensure that this was consistent with the audit needs of the organisation, as identified in the assurance framework.
- Ensuring that the internal audit function was adequately resourced and had appropriate standing within the CCG.
- Consideration of the major findings of internal audit work (and management's response) and ensuring co-ordination between the internal and external auditors to optimise audit resources.

AUDITS COMPLETED DURING PERIOD:

NHS Constitution
 Delayed Transfers of Care
 Quality – NICE Guidance
 Financial reporting and budgetary control
 Key Financial Assurance
 Procedures of Limited Clinical Value
 Conflicts of Interest
 Board Assurance
 Information Governance Toolkit v14

TBC
 Cyber security
 Quality – Care Home contracts
 Quality – Primary care
 Off payroll contractors
 Business Intelligence

- Ensuring that an appropriate relationship with internal auditors was maintained;
- Reviewing recommendations from the findings of other internal audit providers on the CCG's outsourced functions eg CSU/Payroll Service Auditor reporting

External audit

The Committee reviewed the work and findings of the external auditors and considered the implications and management's responses to their work. This was achieved by:

- Consideration of the performance of the external auditors, as far as the rules governing the appointment permit.
- Discussion and agreement with the external auditors, before the audit commenced, on the nature and scope of the audit as set out in the annual plan
- Discussion with the external auditors of their local evaluation of audit risks and assessment of the CCG and associated impact on the audit fee.
- Approval of audit fee after taking into consideration the factors above
- Reviewing all external audit reports, including the report to those charged with governance and agreement of the annual audit letter before submission to the CCG
- Ensuring an appropriate relationship with external auditors is maintained

Counter fraud

The Committee satisfied itself that the CCG had adequate arrangements in place for countering fraud and reviewed the outcomes of counter fraud work. The counter fraud work programme for the CCG was agreed in June 2016.

No instances of fraud or financial misdemeanor were discovered.

Financial reporting

The Committee reviewed accounting policies and the arrangements and timetable for closing the accounts and Month 9 draft accounts in February 2017. The Committee held two special meetings: the first on 24 April to consider the draft accounts and annual report before submission and another on 23 May to consider the audited final accounts and annual report, including the annual governance statement. The Board will review the final accounts and annual report on 25 May before submission to NHS England. In accordance with the Scheme of Delegation approval for minor changes between papers and the submission date of 31 May were delegated to the Chair of the Audit Committee, the CFO and one of either the Accountable Officer or qualified accountant Lay member of the Audit Committee, to be made following discussion with External Audit.

Review of effectiveness

All members of the Committee completed the self-assessment checklists from the NHS Audit Committee Handbook. The outcomes were discussed in April 2017; the answers were consistent and actions from 2016 had been implemented. The Committee assessed itself as fully compliant with best practice in this area, as it was properly constituted; reports regularly to the Board; members have sufficient experience and knowledge; it prepares an annual report; and assesses its own effectiveness.

Conclusion

The Committee has complied with its terms of reference during 2016. It has:

- Received and approved the external auditors (Annual Audit Letter) ISA260 for 201/15
- Reviewed the Head of Internal Audit Opinion for 2016/17 and confirmed that it was consistent with the Committee's assessment of control
- Reviewed the Annual Report and Accounts, including the Annual Governance Statement for 2016/17
- Reviewed reports prepared by internal auditors, external auditors, the local counter fraud specialist and the security management specialist, along with management actions where appropriate
- Reviewed the Assurance Framework and operational risk register to ensure that all relevant risks had been identified and were being mitigated appropriately by senior management
- Reviewed its effectiveness using the self-assessment checklists from the NHS Audit Committee Handbook

The Committee would also like to record the close working relationships and cooperation between the committees of the Board facilitated by lay members sitting on more than one committee.

Looking Forward

The Committee continues to be proactive in planning its activities. The work-plan for the Committee has been reviewed and in addition to its regular activities, and in order to ensure overview systems are in place and appropriate levels of assurance are received, the Committee is planning to look at the following areas:

- requirement for integrating financial and outputs/outcomes performance monitoring in respect of the pooled budgets;
- strengthening governance in relation to business case approval and investment decisions as OCCG moves to Oxfordshire system working and integrated commissioning;
- developing comprehensive performance reporting across the OCCG, bringing together finance, activity, quality and outcomes, if the OCCG is going to effectively and comprehensively monitor performance of the Oxfordshire system and commissioning functions;
- strengthening governance and the monitoring of the development and security of IT and business intelligence systems to support and underpin the Oxfordshire system working and integrated commissioning;
- developing closer working relationships with the Board Committees of the other bodies involved in the Oxfordshire system working and integrated commissioning to enable better governance and monitoring of performance and to gain further assurance;
- gain further assurance of the timeliness, quality and consistency of the data shared between the bodies involved in the Oxfordshire system working and integrated commissioning;
- having regard to the continuing statutory obligations of the OCCG, to keep under review the local region Sustainability Transformation Plan to the extent it affects the OCCG and its activities.

The Appointment of External and Internal Auditors

The Committee notes that the process of re-procurement of external and internal auditors has resulted in the re-appointment of Ernst & Young as external auditors to the OCCG and the appointment of RSM UK as internal auditors – both with effect from 2017/18 financial year. The Committee thanks TiAA for their services as internal auditors.

45 Audit Committee (“the Audit Committee”)

TERMS OF REFERENCE

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1. Remit

- 1.1. The Audit Committee shall provide assurance and advice to the Board and the Chief Executive, on the proper stewardship of resources and assets, including value for money, financial reporting, the effectiveness of audit arrangements (internal and external), risk management, internal control and integrated governance arrangements within the CCG.
- 1.2. In particular the Audit Committee will review the CCG’s annual audited financial statements and the CCG’s annual statements on internal control and governance and its compliance and recommend them to the Board for approval.
- 1.3. The Committee will report to the Board at least annually on its work in support of the annual governance statement, specifically commenting on the fitness for purpose of the Assurance Framework, how embedded risk management is in the organisation and how effective integrated governance is within the arrangements.
- 1.4. The Committee shall monitor and report annually on the overall performance of the CCG against its long term plans and outcome delivery with, where possible and relevant, comparison to other similar bodies.

2. Integrated Governance, Risk Management and Internal Control

- 2.1. The Committee shall critically review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, and financial reporting across the whole of the CCG’s activities that support the achievement of the CCG’s objectives.
- 2.2. This Committee holds the overall responsibility (as delegated from the Board) for monitoring the organisation’s governance, risk management and internal control systems. As such, all other sub-committees of the Board will be asked to report into and provide assurance to this Committee as required.
- 2.3. In particular, the Committee will review the adequacy and effectiveness of:
 - 2.3.1. The processes and systems in place, including the Constitution, to ensure that all Committees can discharge their responsibilities.
 - 2.3.2. The processes and controls, including, Prime Financial policies (Standing Financial Instructions) and Scheme of Delegation of Authority (and Reservation of Powers), to ensure the effective management of financial business risk.
 - 2.3.3. Any changes to the above.
 - 2.3.4. The Corporate Risk register and the CCG Assurance Framework and related risk action plans, ensuring that risks are appropriately prioritised and adequately controlled and mitigated, and those high and extreme risks are communicated to the Board.
 - 2.3.5. All risk and control related disclosure statements (in particular the governance statement), together with any appropriate independent assurances, prior to endorsement by the CCG.

- 2.3.6. The underlying assurance processes that indicate the degree of achievement of the CCG objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements.
- 2.3.7. The policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self-certification.
- 2.3.8. Information governance systems and internal control environment.
- 2.3.9. 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.
- 2.3.10. Any joint committee, co-commissioning and contracted-out services, their processes, controls and policies on the same basis as for the CCG itself.
- 2.3.11. Any information technology and business intelligence processes, controls and policies provided by or to the CCG.

2.3.12. Any human resource processes, controls and policies provided by or to the CCG.

~~2.3.12.~~ 2.3.13. Any governance arrangement to support the Sustainability and Transformation Plan or Oxfordshire system wide working.

- 2.4. In carrying out this work the Committee will primarily utilise the work of internal audit, external audit and other assurance functions for the CCG and any joint committee, co-commissioning and contracted out services 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.
- 2.5. This will be evidenced through the Committee's use of an effective assurance framework to guide its work and that of the audit and assurance functions that report to it.

3. Internal Audit

- 3.1. The Committee shall ensure that there is an effective internal audit function that meets mandatory NHS Internal Audit Standards and provides appropriate independent assurance to the Committee, the Chief Executive and the Board. This will be achieved by:
 - 3.1.1. Consideration of the provision of the internal audit service, the cost of the audit and any questions of resignation and dismissal.
 - 3.1.2. 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 organisation, as identified in the assurance framework.
 - 3.1.3. Considering the major findings of internal audit work (and management's response) and ensuring co-ordination between the internal and external auditors to optimise audit resources.
 - 3.1.4. Ensuring that the internal audit function is adequately resourced and has appropriate standing within the CCG.
 - 3.1.5. An annual review of the effectiveness of internal audit;
 - 3.1.6. Ensure an appropriate relationship with internal auditors is maintained;

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- 3.1.7. Where necessary the above will include the review of and recommendations on the findings of other internal audit on the CCG's joint committee, co-commissioning and contracted-out functions.

4. External Audit

- 4.1. The Committee shall review the work and findings of the external auditors and consider the implications and management's responses to their work. This will be achieved by:
- 4.1.1. Consideration of the performance of the external auditors, as far as the rules governing the appointment permit.
 - 4.1.2. Discussion and agreement with the external auditors, before the audit commences, on the nature and scope of the audit as set out in the annual plan, and ensuring co-ordination, as appropriate, with other external auditors in the local health economy.
 - 4.1.3. Discussion with the external auditors of their local evaluation of audit risks and assessment of the CCG and associated impact on the audit fee.
 - 4.1.4. Approval of audit fee after taking into consideration the factors above.
 - 4.1.5. Review of all external audit reports, including the report to those charged with governance, agreement of the annual audit letter before submission to the CCG and any work undertaken outside the annual audit plan, together with the appropriateness of management responses; and
 - 4.1.6. Ensure an appropriate relationship with external auditors is maintained

5. Other Assurance Functions

- 5.1. The Committee shall review the findings of other significant assurance functions, both internal and external and consider the implications for the governance of the CCG. These will include, but will not be limited to, any reviews by Department of Health arm's length bodies or regulators/inspectors (for example, the Care Quality Commission and NHS Litigation Authority) and professional bodies with responsibility for the performance of staff or functions (for example, Royal Colleges and accreditation bodies).

6. Counter Fraud

- 6.1. The Committee shall satisfy itself that the CCG has adequate arrangements in place for counter fraud and shall review the outcomes of counter fraud work. It shall also approve the counter fraud work programme for the CCG.
- 6.2. The Committee should be advised as soon as possible of any instances discovered of fraud or financial misdemeanour notified to the CCG.

7. Management

- 7.1. The Committee shall request and review reports and positive assurances from directors and managers on the overall arrangements for governance, risk management and internal control.
- 7.2. The Committee may also request specific reports from individual functions within the CCG as they may be appropriate to the overall arrangements.

8. Financial Reporting

- 8.1. The Committee shall monitor the integrity of the financial statements of the CCG and any formal announcements relating to the CCG's financial performance.
- 8.2. The Committee shall ensure that the systems for financial reporting to the CCG, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the CCG.
- 8.3. The Committee shall review the annual report and financial statements before submission to the Board and the CCG, focusing particularly on:
 - 8.3.1. The wording in the governance statement and other disclosures relevant to the terms of reference of the Committee;
 - 8.3.2. Changes in, and compliance with, accounting policies, practices and estimation techniques;
 - 8.3.3. Unadjusted mis-statements in the financial statements;
 - 8.3.4. Significant judgements in preparing of the financial statements;
 - 8.3.5. Significant adjustments resulting from the audit;
 - 8.3.6. The assumptions underlying the Statement of On-Going Concern
 - 8.3.7. Letter of representation;
 - 8.3.8. Letter to management from auditors and management's response; and
 - 8.3.9. Qualitative aspects of financial reporting.

9. Write Offs, Losses and Special Payments

- 9.1. Any write offs above the limit (£1,000) in the Standing Financial Instructions will need the approval of the Committee prior to reporting to the Board.

10. Procurement Policy Compliance (Tender Waiver)

- 10.1. The Committee will monitor compliance with the CCG Procurement Policy through the quarterly reporting of the use of single tender action waivers. Ratification of single tender waivers shall be made by the Board.

11. Membership

- 11.1. The Committee shall comprise at least four Board members:

- 11.1.1. Vice Chair of the Board;
- 11.1.2. two other Lay Board Members (including a qualified accountant), ~~the Specialist Medical Advisor~~;
- 11.1.3. and one Clinical Locality Director.

- 11.2. No member of management shall become a member of the Committee.

- 11.3. Members of the committee shall be formally appointed by the Board.

11.4. The Vice Chair of the Board shall be Committee Chair. In the absence of the Committee Chair the remaining Committee members present shall elect one of themselves to chair the meeting.

11.5. Only members of the committee have the right to attend committee meetings. However, the following officers of the CCG and external representatives are expected to be in attendance at the Committee: the Director of Finance, the Director of Governance. In addition an appropriate representative from Internal Audit and a representative from External Audit shall normally attend meetings. Officers may send a designated deputy if they cannot attend in person.

11.6. Any other member of the CCG management and relevant external advisers may be invited to attend as and when appropriate and necessary, particularly when the Committee is discussing particular areas of risk or operation.

11.7. At least once a year the Committee reserves the right to meet privately with the external and internal auditors.

11.8. Representatives from NHS Protect may be invited to attend meetings and will normally attend at least one meeting each year.

11.9. Regardless of attendance, external audit, internal audit, local counter fraud and security management (NHS Protect) providers will have full and unrestricted rights of access to the Committee.

11.10. The Chief Executive is expected to attend and discuss, at least annually with the Committee, the process for assurance that supports the statement on internal control. He or she should also normally attend when the Committee considers the draft internal audit plan and the annual accounts.

11.11. The Chair of the Board shall also be invited to attend one meeting each year in order to form a view on, and understanding of, the Committee's operations.

12. Quorum

12.1. A quorum shall be at least 3 Committee members (one of whom should be a qualified accountant). 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.

13. Meetings

13.1. The Committee shall meet not less than four times each year and otherwise as required. Meetings of the Committee shall be called by the [CCG Business Manager meeting administrator](#) at the request of the Committee Chair at not less than five working days' notice. The External Auditor or Head of Internal Audit may request a meeting if they consider that one is necessary and this may be called at shorter notice than stated above. One meeting will be held immediately before the annual financial accounts being presented to the CCG Accountable Officer for approval.