

TRUST BOARD

DATE OF MEETING:	26 May 2016	
AGENDA ITEM:	BM16/81	
SUBJECT:	Annual Report of the Audit Committee 2015/16	
ACTION REQUIRED	For Decision	
AUTHOR(S):	Audley Charles, Interim Company Secretary & Head of Corporate Affairs	
PRESENTED BY:	Chair of Audit Committee	
LINK TO STRATEGIC OBJECTIVE:	ALL	
LINK TO BOARD ASSURANCE FRAMEWORK:	ALL	
FREEDOM OF INFORMATION STATUS (FOIA):	Release Document in Full	
FOIA EXEMPTIONS APPLIED: (if relevant)	None	
EXECUTIVE SUMMARY (KEY ISSUES):	<p>The Audit Committee is mandated to produce an annual report of its work for inclusion in the Trust's Annual Report & Accounts. This is to be approved by the Board of Directors.</p> <p>The report seeks to show how the Committee via Internal and External Audit, Anti-Fraud activities and its response to various reports received throughout the reporting period, held management to account and added value to the integrated governance system operating within the Trust. It also shows how it helped to give assurance to the Trust's system of internal control.</p>	
RECOMMENDATION:	The report is discussed and approved for inclusion within the <i>Annual Report & Accounts 2015/16</i>	
PREVIOUSLY CONSIDERED BY:	Committee	Audit Committee
	Agenda Ref.	AU 16/52
	Date of meeting	20 April 2016
	Future Outcomes	

Annual Report of the Audit Committee 2016/17

Introduction by the Chair of the Audit Committee

This Annual Report to the Board of Directors and the Council of Governors provides an overview of the Audit Committee's activities from April 2015 to March 2016 and sets out how the Committee has accomplished its key targets and met its priorities.

In addition to our regular activities we provided material oversight into the proposal of the Trust being acquired by Mersey Care including accounting standards for transactions. Linked to our Values as a Trust, we also gave particular attention to the issue of the treatment and recording of service users' personal possessions. The Committee also discussed in detail the Internal Audit's report on sickness absence management and made recommendations for improvement. Each report included an opinion and a management action plan to address any weaknesses.

The Committee was extremely pleased to receive a number of Significant Assurance Reports with respect to (1) Mental Health Act Administration demonstrating a robust approach to the administration of the Mental Health Act; (2) the current systems and processes established for restrictive interventions and how the Trust reports and monitors such incidents to improve future practice under the Positive and Safe Programme; and (3) the management of Medical Devices.

I am extremely fortunate and grateful to have been supported by Non-Executive colleagues, who with the executive officers and the support of Internal and External Audit helped us discharge our responsibilities to provide independent assurance on the effectiveness of the Trust's system of integrated governance.

I believe that an effective Audit Committee can both improve processes within the Trust leading to better financial management and service user outcomes and enhance confidence in corporate governance and systems of internal control.

The Trust finished 2015/16 year in a very strong position as far as governance and quality are concerned. I believe the Audit Committee by being an effective independent watch dog has contributed significantly to that success.

This report details the membership and role of the Committee and the work it has undertaken during the reporting period.

The Committee acknowledges the significant amount of work carried out by the Quality and Risk Committee, the Strategy and Performance Committee, the Director of Nursing & Quality and his team, and the Company Secretary and his team in respect of the Trust's governance and risk management systems.

I would also like to thank all members of the Committee, along with Directors, staff, internal and external advisors for their responses, support and contributions during the year.

This will be my last report as Chair of the Audit Committee. It has been an absolute honour to Chair the Committee. I have met some wonderful staff and their passion and hard work have never failed to impress me. I feel very proud of the role of the Committee in support of the governance and risk management systems and that the Trust has been assessed as good in all domains by the CQC in 2016 and rated **Green** for its governance standards by Monitor (NHSI).

Non-Executive Director
Chair, Audit Committee

(Written by Company Secretary for Chair of Audit Committee)

Role of the Committee

The Audit Committee is required to report annually to the Board and to the Council of Governors outlining the work it has undertaken during the year and where necessary, highlighting any areas of concern.

The Audit Committee is responsible on behalf of the Board for independently reviewing the systems of integrated governance, risk management, assurance and internal control. The Committee's work includes reviewing the whole of the Trust's governance agenda, not just the finances, and is in support of the achievement of the Trust's objectives. It follows best practice guidance as set out in the current *NHS Audit Committee Handbook*. Its responsibilities are discussed in more detail in its terms of reference.

Membership and Meetings

Three Independent Non-Executive Directors (NEDs) are members of the Committee

Ms Julia Possener Member from December 2012 (Permanent Chair from July 2014)

Mr Ian Bevan Member from January 2015

Ms Andrea Campbell Member from December 2012

Brief biographical sketches and CVs of members including any declared interests can be found on the Trust website.

During the reporting period, the Committee was composed of three independent Non-Executive Directors with a quorum of two.

The Committee met five times during the year and attendance at the meetings is recorded in the table below

Table 1

Members	Meeting 29 Apr. 2016	Meeting 20 May 2016	Meeting 12 Aug. 2016	Meeting 17 Nov. 2016	Meeting 25 Jan 2017
Julia Possener	✓	✓	✓	✓	✓
Ian Bevan	✓	✓	✓	✓	✓
Andrea Campbell	x	✓	✓	✓	✓

Key activities undertaken by the Committee during the reporting period are shown in the table below:

Table 2

APRIL 2016	<ul style="list-style-type: none"> Review of Annual Report, Annual Governance Statement, Annual Accounts and Financial Statements Receive Head of Internal Audit
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	<p>Opinion</p> <ul style="list-style-type: none"> • Internal Audit Progress Report • Clinical Audits of: Revalidation of Medical Staff Assignment Report, Information Governance Assurance Review, Assurance Framework, Training and Organisational Development Review, Commissioning for Quality and Innovation (CQUIN) and Serious Incidents Review • Internal Audit Plan • Estates Project Management Process Review • External and Internal Audit Progress Reports • Information Governance Quality Report • Information Governance Toolkit • Losses and Special Payments
<p>MAY 2016</p>	<p>YEAR END PROCESS-EXTERNAL AUDIT REPORTS::</p> <ul style="list-style-type: none"> • Grant Thornton ISA 360 Audit Memorandum • Grant Thornton’s Opinion on the Accounts • Grant Thornton’s Opinion on the Quality Account <p>Audited Annual Report And Accounts 2016/17:</p> <ul style="list-style-type: none"> • Financial Statements • Annual Report • Annual Governance Statement • Quality Report • Management Letter of Representation to Grant Thornton • Audit Committee Letter of Assurance to Grant Thornton
<p>AUGUST 2016</p>	<ul style="list-style-type: none"> • Quarterly Claims Report • Internal Audit –Audit of: PALS Review of 2014/15, Value of Clinical Audit 2014/15, Network Infrastructure Review 2014/15,

	<p>Mental Health Act Administration Review 2015/16</p> <ul style="list-style-type: none"> • Internal Audit Progress Report • Trust Compliance with its Licence • Update on discussion of the role of the Committee into the proposed Mersey Care Transaction and recommendations to be made to the Trust Board • Received for Information, NHS Protect Intelligence Report 2014/15 • Corporate Registers Update • Whistleblowing Register-Redacted Investigation Report
<p>NOVEMBER 2016</p>	<ul style="list-style-type: none"> • Internal Audit Progress Report discussed and in particular the Internal Audit Report giving no assurance for service users property and the limited assurance for the management of sickness & absence 2015/16; Medical Devices Review Final Report 2015/16; Estates Project Management Follow Up Report 2015/16 • Regular NHSLA Claims Report Update received • Regular Anti-Fraud Services Progress Report • Regular External Audit Report and Update • Review Trust's Compliance with its Licence • Review Breaches and Waivers • Review Debtors and Creditors • Whistleblowing Register • Review Losses and Special Payments • Review Information Governance Quarterly Report
<p>JANUARY 2017</p>	<ul style="list-style-type: none"> • Internal Audit: Progress Report,

	<p>Audit Committee Update</p> <ul style="list-style-type: none"> • Service Users’ Possession Progress Report • External Audit Report and Update • External Audit Plan • Anti-Fraud Services Progress Report • Internal Audit on Restraints • Trust’s Compliance with its Licence • Regular NHSLA Claims Report Update received
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Regular attendees at the Committee Meetings were Grant Thornton (External Auditors), Mersey Internal Audit Agency (“MIAA”) (Internal Audit & Local Anti-Fraud), the Director of Finance & Information, the Company Secretary and Weightmans Solicitors, the outsourced provider of NHSLA Claims processing. During the reporting period, the Committee also requested attendance at specific meetings to provide assurance in respect of certain Internal Audit reports of the Head of Clinical Governance, Senior Operational Mangers and the Director of Operations.

Our Internal Audit & Local Anti-Fraud requirements were provided by Mersey Internal Audit Agency (MIAA).

Terms of Reference

The Committee’s Terms of Reference have been reviewed and revised during the year to ensure their appropriateness and are based on the *HFMA Third Edition NHS Audit Committee Handbook*.

Board Governance Arrangements

There are two other assurance committees: Quality and Risk and Strategy and Performance. They both have a monitoring and oversight role and the Audit Committee is familiar with their work with some members of the Audit Committee attending both between them. This helps to strengthen the Committee’s effectiveness. The Chairs of the respective Committees have also met during the course of the reporting period.

Business of the Committee

The following provides an overview of the business conducted during 2016/17 demonstrating how an effective Audit Committee can benefit the Trust:

Governance, Assurance and Risk Management

During the year the Trust sought to build on the significant work undertaken in the previous year in this area with respect to a fully embedded integrated Governance & Risk system and approach to comply fully with Monitor's Foundation Trust Code of Governance.

The Audit Committee monitored and tracked all material governance activity during the reporting period to ensure that the system of internal control, risk management and governance is fit for purpose and compliant with regulatory requirements, aligned to best practice where appropriate. It also provided a solid foundation to support the significant assurance rating from the Head of Internal Audit (HOIA) for 2016/17.

The Committee continued to review the operation and management of the risk and assurance framework and the management of key risks. It reviewed the *Board Assurance Framework* (BAF) at regular intervals and the adequacy of the assurance given. It worked closely with MIAA, our Internal Auditors, on ways of improving the BAF and responded to their Assessment of it.

The *Annual Governance Statement* (AGS) is a key document which is part of the governance process. In order to be in a position to recommend to the Board its inclusion in the Annual Report, the Committee received regular reports on the control framework and the internal assurance processes from management during the year. Some of those reports are listed at **Table 2** above. Key reports received include:

- Advisory report on how compliance with the Foundation Trust's Licence
- Governance report on compliance with Monitor's Code of Governance
- Revision of the Standing Financial Instructions and Scheme of Delegation
- Revision of the Standing Orders

The Committee requested and received separate reports from management on items of interest and concern including:

- Management of Staff Sickness
- Management of Service Users Property
- Management and assurance on use of restraint
- Medical devices management and review

The Committee also reviewed the Corporate Risk Registers and advised regarding escalation to the Board Assurance Framework. It also reviewed the Raising Concerns (Whistleblowing) process and received reports on its register and discussed how those concerns are dealt with.

Internal Audit Activities

Each assurance report included an opinion and a management action plan to address any weaknesses. The responsible director or a senior member of their team attended the Committee to provide assurances to the Committee and to present the action plan for the recommendations arising from the internal audit reports. This was to ensure that all corrective actions are agreed with appropriate timelines for completion.

External Audit, Review of Financial Statements and Annual Reports

Grant Thornton has continued its role as Auditors to the Trust and during the year reported on the 2016/17 Financial Statements & Quality Accounts. No material or significant issues were raised in respect of these Statements and Accounts. Technical support was provided on an ongoing basis to the Committee and the Trust. Representatives of Grant Thornton attended each Audit Committee.

Grant Thornton will attend a Council of Governors meeting following the production of the Annual Report and Financial Statements to ensure Governors are assured by the process undertaken to audit the accounts. In addition, they will also present their opinion on the Quality Account to the Council of Governors and at the Annual Members Meeting.

During 2015/16 and part of 2016/17, the Trust remained red for governance under Monitor's Risk Assessment Framework and consequently was given a limited Value for Money (VFM) conclusion by Grant Thornton. As the governance rating remained red at year end for 2015/16, the VFM conclusion was again limited. In February 2017 Monitor's Risk Assessment Framework re graded the Trust to Green and lifted the undertakings notice that had negatively impacted on its governance rating.

Anti-Fraud Activity

The Committee and the Trust were supported in carrying out Anti-Fraud activity by MIAA's Local Counter Fraud Service (LCFS) working to a programme agreed with the Audit Committee.

The role of LCFS is to assist in creating an anti-fraud culture within the Trust: deterring, preventing and detecting fraud, investigating suspicions that arise, seeking to apply appropriate sanctions and redress in respect of monies obtained through fraud. Where such cases are substantiated, the Trust normally takes appropriate disciplinary measures.

Pro-active work undertaken included induction and awareness training along with ensuring Trust policies and procedures incorporate, where applicable, anti-fraud measures including the Anti-Fraud, Bribery and Corruption Policy.

The Audit Committee received regular detailed progress reports and an Anti-Fraud Annual Report from LCFS. No significant cases or issues of Anti-Fraud took place or were identified during the year.

Issues Carried Forward

In the reporting period there were no significant and material issues raised by the Committee to the Board of Directors or the Council of Governors. However, Internal Audit issued a no assurance report in respect of Service Users Possessions and a limited assurance report in respect of Sickness Absence Management. These are areas of concern. Although the failings identified did not have a material impact on the quality of care provided, the Audit Committee requested an in-depth review and a corrective action plan for each matter which will continue to be monitored by the Committee during 2017.

With respect to the Internal Audit plan for 2017/18, a recommendation will be made to the new Audit Committee of Mersey Care which will have responsibility for the services provided by the Trust for a certain number of risk areas to be kept under review to see if they should be made a priority above those proposed in the current Internal Audit Plan which has been approved by the Audit Committee for 2017/18. This will be based on alignment with the strategic risk assessment for the Trust.

Conclusion

The Committee has continued to support the rigorous application of embedded governance and risk management systems. This has been particularly demonstrated in the swift remedial actions implemented as a result of the unacceptable no assurance and limited assurance internal audit reports. The Committee is of the view that its work during the year has contributed to the improvement to **Green** in the governance rating standards by Monitor (NHSI) and being assessed as Good in all domains by the CQC.

The Committee encourages frank, open and regular dialogue with the Trust's internal and external audit teams and regular attendees to the meetings.

Throughout the reporting period, the Chair of the Committee reported in writing on the nature and outcomes of its work to the Board of Directors highlighting any area that should be brought to its attention.

The Committee has also assessed the effectiveness of its own performance during the year and will report to the Board of Directors at the May 2017 meeting.

The Committee acknowledges the significant amount of work carried out by the Quality and Risk Committee, the Strategy and Performance Committee, the Director of Nursing & Quality and his team, and the Company Secretary and his team in continuing to embed the Trust's governance and risk management systems.

Author: Audley Charles-2017