

ANNUAL REPORT

Audit and Governance Committee

2018/2019



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RELATED DOCUMENTS

These documents will provide additional information:

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1. Introduction

1.1 This report provides an overview of the work of the CCG's Audit and Governance Committee during the 2018/19 financial year. This Committee is the CCG's statutory Audit Committee, appointed in line with the Health and Social Care Act 2012 and its primary purpose, as defined in its terms of reference, is:-

"...to provide the governing body with an independent and objective view of the group's systems, information and compliance with laws, regulations and directions governing the group. It will deliver this remit in the context of the group's priorities, as they emerge and develop, and the risks associated with achieving them..."

1.2 In order to achieve this core purpose, the committee's terms of reference also set out detailed descriptions of specific duties and responsibilities required of it, which are undertaken as the committee meets throughout the year. These terms of reference are incorporated into the Clinical Commissioning Group's Constitution and published on the Group's website.

1.3 This report includes an assessment of how effective the committee has been in achieving its core purpose through meeting the duties and responsibilities in the terms of reference during the year. The evidence contained in this report will be shared with the CCG's Governing Body and also will be used to support the development of the organisations' Annual Governance Statement.

1.4 The committee had four scheduled meetings during the financial year:

- 17 April 2018
- 31 July 2018
- 13 November 2018
- 19 February 2019

As part of the process of signing off the CCG's Annual Report, Financial Statements and reports from the External Auditors the committee also held an additional meeting on 22 May 2018. Details of the attendance at all of these meetings are enclosed at Appendix 1 for information.

1.5 The committee, in line with its constitutional terms of reference, is chaired by the CCG's Lay Member for Audit and Governance and is made up of other Lay Members who serve on the Governing Body, including the Lay Member for Finance and Performance and an independent member.

1.6 All of the members of the committee have significant experience of financial, audit and governance and risk management matters. The committee considers that its independent make up is vital to ensuring that it discharging its duties in an appropriate way. The members aim to act as a 'critical friend' to the CCG's management team, providing challenge where required to ensure that robust systems of control are maintained.

2. Discharge of Duties during 2018/2019

2.1 As highlighted above, the Audit and Governance Committee has a key role in the CCG's Governance arrangements as its statutory Governing Body audit committee. As part of its role, it is charged with a number of specific duties by the Governing Body. These are listed in full in Appendix 2, but as part of its on-going review of effectiveness, the committee has chosen to group these duties into the following themes:-

- Internal Audit
- External Audit
- Governance
- Assurance/ Risk Management and Internal Control
- Accounting Matters

2.2 Details are set out below of the work undertaken by the committee during the year that give a picture of how these duties have been met. At its meeting in February, the Committee confirmed that this approach to reporting on its work and activity remained appropriate and also agreed to undertake a review of its broader effectiveness in line with national best practice.

Internal Audit

2.3 The committee is responsible for overseeing the work of the CCG's Internal Audit function. This service is provided by PriceWaterhouseCoopers (PwC), who develop an annual audit plan which is agreed by the committee and reported on throughout the year. PwC are represented at each meeting to ensure that the committee has adequate opportunity to examine their work. The committee considered an initial draft of the plan at the April 2018, noting that it was risk assessed against the CCG's Corporate Objectives in line with the Governing Body Assurance Framework. This ensured that resources were targeted in line with the areas of highest priority for the CCG and that the audit plan reflected the extent of the CCG's activities. Following suggestions from the committee around the allocation of time, the plan was agreed at the May 2018 meeting.

2.4 PwC provided an update on progress with the plan at the committee's subsequent meetings during the year, providing assurance that work was effectively on track. In addition as part of the plan, updates have been provided on progress with recommendations made in previous audit work. The committee has worked with PwC to refine how this detail is reported, in particular to support the committee in developing its understanding of reasons for any slippage in the implementation of recommendations.

2.5 As part of the update on progress, the committee has considered finalised reports from the Internal Audit team as they have been completed. At the April 2018 meeting, the committee considered reports arising from the 2017/18 Internal Audit plan on Information Governance, Management on Conflicts of Interest and the Procurement service provided by the Commissioning Support Unit. A further report on the CCG's arrangements for managing Quality, Innovation Productivity and Prevention (QIPP) undertaken in 2017/18 was considered in July 2018. In response to findings from this report, the CCG has refined the processes around how it reports and manages QIPP, details of which have been reported to the Committee.

- 2.6 In line with the internal audit plan, reports relating to Primary Care, Quality and Safety and joint commissioning arrangements with the City of Wolverhampton Council through the Better Care Fund have been considered throughout the rest of the year. The committee has taken the opportunity to review the findings and recommendations that have been made and action plans produced as a result. This year the committee has also asked for reports relating to Quality and Safety and Primary Care to be referred to the relevant Governing Body committees to ensure they are fully sighted on the findings and work being delivered in response.
- 2.7 A key output of the Internal Audit service is the overall Head of Internal Audit Opinion on the adequacy of the CCG's system of internal control. This forms part of the CCG's Annual Governance Statement in its Annual Report as well as being set out in the Annual Accounts. The committee considered a draft of the opinion in April 2018 and the final version in May 2018. This set out that the system of control was considered to be generally satisfactory with some improvements required, a finding based on the outcome of internal audit work conducted during the year. The committee were assured that this finding is in line with that of other public sector bodies.
- 2.8 Other work considered by the committee include the Internal Audit Charter, which was reviewed at the July and November meetings and draft terms of reference for an internal audit of Primary Care Commissioning arrangements in line with national guidance.

External Audit

- 2.9 The CCG's external auditors, Grant Thornton, have also provided regular progress reports to the committee on their work. This has included details of the risk assessment carried out to inform the 2017/18 audit, which was reported to the committee in April 2018. This set out a number of issues that were considered including the risk of fraud, the CCG's compliance with relevant statutory obligations and matters relating to the CCG as a going concern. Details of the audit itself, including the management representation letter from the CCG were presented to the May 2018 meeting when the committee were advised that the external auditors had given the CCG an unqualified opinion on its Annual accounts. This was confirmed in the annual Audit Letter presented to the July 2018 meeting.
- 2.10 Subsequent reports from Grant Thornton have given details of work planned for the 2018/19 audit work including details of contextual issues that are considered to impact on the audit. The reports from Grant Thornton have also provided details of national developments with the potential to impact on the committee or the CCG's work. This has included some benchmarking information from across both internal and external audit work.

Governance

- 2.11 The committee has maintained its overview of the CCG's governance arrangements, including understanding how these arrangements have been described in the organisation's annual governance statement. The 2017/18 statement was considered and endorsed at the April 2018 and May 2018 meetings following work highlighted in last year's annual report to develop the statement. The committee also agreed the final version of its 2017/18 Annual Report at the May 2018 meeting.

- 2.12 The committee has again been involved in the development of this year's Governance Statement, considering an initial report in November that outlined the structure and content of the template for the statement produced by NHS England and a more detailed report in February that set out an initial first draft. This was also accompanied by an assessment of the alignment of the CCG's corporate governance arrangements with the revised UK Corporate Governance Code. Whilst as a public body the CCG does not claim compliance with the code, it provides a useful reference point and the committee discussed areas of both equivalence and where future development would be useful.
- 2.13 As a key component of the CCG's governance arrangement, the committee has continued to consider its own effectiveness throughout the year. In April 2018, as part of the development of last year's committee annual report, the committee discussed a number of areas for development particularly around the appraisal process for committee members. As a consequence of these discussions, appraisal arrangements in line with those for members of the Governing Body are being put into place for committee members. In February 2019, the committee also considered an assessment for Audit Committees produced by the Healthcare Financial Management Association and an approach to continuing to assess its effectiveness, the outcome of which is outlined below in Section 3.
- 2.14 The committee is involved in the review of policies that make up the CCG's governance framework. During the year, the committee has reviewed the CCG's whistleblowing policy and associated arrangements and made a number of detailed suggestions to ensure that these arrangements operate effectively. In particular, whilst noting that no specific disclosures have been made under the policy, the committee have suggested that further communication with staff is undertaken in order to ensure there an open and transparent culture continues to be promoted.

Assurance/ Risk Management and Internal Control

- 2.15 Following extensive work last year to review and refine the CCG's arrangements for managing risk, the committee has picked up its new role in overseeing these arrangements. This has included receiving quarterly updates on the development of the CCG's Governing Body Assurance Framework (GBAF), which articulates risks to the CCG achieving its corporate objectives. The committee has been able to endorse the work undertaken to develop the GBAF and subsequently recommended it on to the Governing Body for detailed comment and consideration.
- 2.16 The GBAF is supported by assessment of risk throughout the organisation, including at each of the Governing Bodies committees. The Audit and Governance Committee has received an overview of the work undertaken by the other committees to manage the risks identified in their areas of responsibility. The Corporate Operations Manager has also provided updates to the committee on broader work to ensure risk management is effectively embedded within the organisation, including staff training and work to refine systems and processes.
- 2.17 In November 2018 the committee considered details of the first of a series of 'Deep Dives' into the individual domains which make up the GBAF. This had been undertaken by the CCG's Senior Management Team, who had reviewed the risk profile for the Corporate Objective relating to meeting the CCG's statutory duties and responsibilities. This review had reflected on whether risks associated with this domain had been effectively identified, assessed and managed and actions undertaken as a result. The deep dive had identified a need to further understand risks associated with staff resources supporting Black Country Sustainability and

Transformation Partnership (STP) programmes of work and the consequent uncertainty this created. Additional work with staff, including a series of Executive led staff meetings, had been undertaken as a result. The committee were assured that this exercise had sufficiently tested the level of risk associated with this objective and that risk management processes were being used as a tool to drive business improvement across the CCG. Further deep dives are planned for consideration by the committee, who are planning to invite relevant managers to discuss the assessments made and work undertaken to provide additional assurance.

- 2.18 An overview of other specific areas of internal control has been maintained by the committee. This includes regular updates on the work of the CCG's providers of Counter Fraud and Security Management services. These areas have broadly been managed by exception, with a work plan agreed at the April 2018 meeting, followed by details of progress against them. As in previous years, these arrangements have operated effectively and no significant issues have been identified during the year.

Accounting Matters

- 2.19 The committee has continued to undertake its statutory responsibilities in reviewing the CCG's arrangements for meeting its annual accounting and reporting duties. The 2017/18 draft and final annual report and accounts were considered at the April and May 2018 meetings respectively. In April, whilst noting that the CCG was required to adhere to nationally mandated timescales, the committee did highlight that the time available to review the accounts was significantly truncated. The committee were able to recommend the adoption of the accounts to the Governing Body in May 2018, noting the unqualified opinion from the External Auditors and the hard work of the CCG's teams throughout the year to ensure it met its financial statutory duties. A timetable for the preparation of the 2018/19 final accounts was considered at the February 2019 meeting.
- 2.20 In line with its terms of reference, the committee has also reviewed reports from the Chief Finance Officer at each regular meeting on the special payments, losses and the use of waivers and or breaches of the CCG's Detailed or Prime Financial Policies. The Chief Finance Officer has also provided an overview of receivables and payables greater than £10,000 and over 6 months old. The committee have used these reports to gain assurance that the processes the CCG has in place provide a significant level of internal control and no significant concerns have been raised as a consequence of these reports during the year. The committee have asked the Chief Finance Officer to continue to remind budget managers of the importance of following defined processes and for comparative information and trends to be provided in the new year.

3. Review of Effectiveness

- 3.1 In previous years, the committee has used a self-assessment tool for Audit Committees developed by the Department for the Environment, Food and Rural Affairs to assess its effectiveness. This has enabled the committee to highlight areas where further development would be helpful to improve its performance and ensure it continues to meet its roles and responsibilities. In response to areas highlighted from these reviews, the committee has instigated a programme of appraisals for committee members and introduced space on its agenda to provide feedback from the work of the CCG's own Governing Body as well as forums across the Black Country STP (including the Joint Commissioning Committee established by the four

Black Country CCGs and the Audit Chair forum that supports it). The committee has decided that this tool continues to be an effective way of assessing its own effectiveness and has undertaken a further assessment during the year.

- 3.2 As well as continuing to highlight that the committee's role and purpose is clear and well understood by both committee members and within the wider CCG, the self-assessment demonstrates that committee members feel that, broadly they have sufficient oversight of CCG wide issues and time available to conduct their role in a meaningful way. As with last year's assessment it has been noted that, due to the timing of meetings and the national deadline for the submission of accounts, the committee had had a more limited opportunity to review the annual accounts.
- 3.3 Areas that the review identified for further work in the upcoming year included ways in which independent members of the committee can be effectively sighted on the work of the Governing Body and the how committee can review its effectiveness throughout the year. Following a discussion at the April 2019 meeting, the Committee will also be building on existing good practice to include senior management attendance to support deep dives and to develop a skills matrix.

4. Conclusions

- 4.1 The committee believes that the evidence set out above demonstrates to the Governing Body that it has effectively met the requirements of its terms of reference. In particular, the committees enhanced role in risk management has enabled it to continue to seek and provide assurance to the Governing Body around the systems of internal control in a way that is making a demonstrable difference to the way the CCG operates.
- 4.2 The committee continues to be committed to continuous improvement, and will be using the outcomes of its assessment of effectiveness to ensure it remains able to respond to the challenges of maintaining robust governance arrangements in the fluid and developing environment in which the CCG operates.

Appendix 1 – Attendance at Meetings

Attendee		Meetings Attended (of those required)	Notes
Committee Members	Peter Price (Chair)	5 of 5	
	Les Trigg	5 of 5	
	Dean Cullis	5 of 5	
	Jim Oatridge	4 of 5	
CCG Staff	Tony Gallagher (Chief Finance Officer)	5 of 5	
	Peter McKenzie (Corporate Operations Manager)	5 of 5	
	Maria Tongue (Head of Financial Resources)	2 of 3	Left the CCG in January 2019
	Allan Kay (Head of Financial Resources)	1 of 1	Joined the CCG in January 2019
	Phil Strickland (Governance and Risk Coordinator)	1 of 1	
External Attendees	Joanna Watson (Senior Manager, PwC)	3 of 5	
	Neil Mohan (Senior Manager LCFS, PwC)	2 of 4	
	Shaun Grayson (LSMS, CWAS)	1 of 3	
	Jim McLarnon (Audit Manager, Grant Thornton)	4 of 5	
	Mark Stocks (Audit Partner, Grant Thornton)	3 of 5	
	Reena Bajaj (Internal Audit Manager, PwC)	1 of 1	
	Tansim Putwa (Counter Fraud Manager, PwC)	2 of 2	
	Tom O'Hann (Audit Manager, PwC)	1 of 1	
	Alison Breadon (Head of Internal Audit, PwC)	2 of 5	

Drs Helen Hibbs (Chief Officer) and Salma Reehana (CCG Chair) attended the May 2019 meeting.

1. Appendix 2 - AGC Duties (Extract from TOR)

The AGC is accountable to the group's governing body and its remit is to provide the governing body with an independent and objective view of the group's systems, information and compliance with laws, regulations and directions governing the group. It will deliver this remit in the context of the group's priorities, as they emerge and develop, and the risks associated with achieving them.

The AGC shall critically review the group's financial reporting and internal control principles and ensure that an appropriate relationship with both internal and external auditors is maintained.

The specific duties required of the AGC are:

- i) reviewing the group's adherence to the principles of good governance (constitution 4.5);
- ii) monitoring the group's performance in delivering:
 - (a) the duty to act effectively, efficiently and economically (constitution 5.2.3);
 - (b) its general financial duties as regards expenditure not exceeding allotments and use of resources, both total and specified types, not exceeding specified amounts (constitution 5.3.1 - 5.3.3);
- iii) monitoring the group's performance in delivering the duties relating to:
 - (a) acting consistently with the promotion of a comprehensive health service and the mandate issued for each financial year by the Secretary of State to NHS England (constitution 5.1.2(a));
 - (b) obtaining appropriate advice as part of processes for potential or actual changes to commissioning arrangements (constitution 5.2.9(b)).
- iv) reviewing the reasonableness of any decision to suspend Standing Orders and considering reports on any suspension of Standing Orders at any meeting (SO 3.9) and any non-compliance with Prime Financial Policies, scrutinising any proposed changes thereto and determining any referring action or ratification (PFP 1.2.1);
- v) reviewing the group's arrangements to manage all risks and receive appropriate assurance thereon through an integrated governance framework;
- vi) satisfying itself that there is an effective internal audit service (PFP3) and adequate arrangements for countering fraud (PFP4), reviewing the work and findings of the external auditors and approving any changes to the provision of delivery of assurance services to the group (PFP3.4(b));
- vii) reviewing the annual report and financial statements before submission to the governing body and the group; and
- viii) scrutinising any proposed changes to Prime Financial Policies (PFP 1.5.1).

Integrated governance, risk management and internal control

The AGC will review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the group's activities that support the achievement of the group's objectives.

The AGC will be responsible for reviewing and approving the group's overall strategy for Risk Management and reporting to the Governing Body on its effectiveness.

Its work will dovetail with that of the other Governing Body committees, which the group has established in order to seek assurance that robust arrangements are in place for

- Financial and performance management arrangements;
- Effective arrangements for commissioning healthcare services (including those delegated from NHS England in respect of Primary Care); and
- monitoring clinical quality to ensure patient safety.

Each of the committees has a specific role in these areas and monitor and manage the risks associated with these areas on behalf of the Governing Body. The AGC will review the arrangements in place to support this and in particular, will review the adequacy and effectiveness of:

- all risk and control related disclosure statements, (in particular the governance statement), together with any appropriate independent assurances, prior to endorsement by the group;
- underlying assurance processes, including the work of the other committees of the governing body, that indicate the degree of achievement of group objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements;
- policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self-certification;
- policies and procedures for all work related to fraud and corruption as set out in Secretary of State's directions and as required by NHS Protect.

In carrying out this work the AGC will primarily utilise the work of internal audit, external audit and other assurance functions but will not be limited to these sources.

It will also seek reports and assurances from those working for and providing services to the group as appropriate, concentrating on the overarching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.

This will be evidenced through the AGC's use of an effective assurance

framework to guide its work and that of the audit and assurance functions that report to it.

Internal audit

The AGC will ensure that there is an effective internal audit function that meets mandatory NHS Internal Audit Standards and provides appropriate independent assurance to AGC, the Accountable Officer and the group. This will be achieved through:

- consideration of the provision of the internal audit service, its cost and any questions of resignation and dismissal;
- 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;
- considering the major findings of internal audit work (and management's response) and ensuring co-ordination between the internal and external auditors to optimise use of audit resources;
- ensuring that the internal audit function is adequately resourced and has appropriate standing within the group;
- an annual review of the effectiveness and the level of satisfaction with the services of internal audit;
- approval of the internal audit charter.

External audit

The AGC will review the work and findings of the external auditors and consider the implications of their reports and any management responses to their work. This will be 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 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;
- discussion with the external auditors of their local evaluation of audit risks and assessment of the group and associated impact on the audit fee;
- a review of all external audit reports including the report to those charged with governance, agreement of the annual audit letter before its submission to the group and work undertaken outside the annual audit plan, together with the appropriateness of management responses.

Other assurance functions

The AGC shall review the findings of other significant assurance functions, both internal and external, including regulators and inspectors, and consider the implications for the governance of the group. The AGC will approve any changes to the provision or delivery of assurance services to the group (PFP 3.4(b)).

The AGC has full authority to commission any reports or surveys it deems necessary to help it fulfill its obligations, with the necessary funding to be agreed with the Chief Finance Officer by the AGC's Chair.

Counter fraud

The AGC shall satisfy itself that the group has adequate arrangements in place for countering fraud, including the need to work effectively with NHS Protect, approve the counter fraud work plan and review the outcomes of counter fraud work (PFP 4.2 – 4.3).

Management

The AGC shall, as appropriate, request and review reports giving positive assurances or identifying risks from senior managers and those responsible for providing services to the group on the overall arrangements for governance, risk management and internal control

Financial reporting

The AGC shall monitor the integrity of the financial statements of the group and any formal announcements relating to the group's financial performance.

The committee shall ensure that the systems for financial reporting to the group, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the group.

The AGC shall review the annual report and financial statements before submission to the governing body and the group, focusing particularly on:

- wording in the governance statement and other disclosures relevant to the terms of reference of the AGC ;
- changes in, and compliance with, accounting policies, practices and estimation techniques;
- unadjusted mis-statements in the financial statements;
- significant judgements in preparing of the financial statements;
- significant adjustments resulting from the audit;
- agreement of the letter of representation before it is signed, on behalf of the governing body; and
- qualitative aspects of financial reporting.