

# ANNUAL REPORT

## Audit and Governance Committee

### 2015/2016



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## 1. Introduction

1.1 This report provides an overview of the work of the Audit and Governance Committee during the 2015/16 year. The committee's terms of reference are set in the Clinical Commissioning Group's Constitution and this report includes an assessment of how effective the committee has been in meeting these duties during the year.

1.2 The Health and Social Care Act 2012 requires the CCG's Governing Body to appoint an Audit Committee. The Audit and Governance Committee fulfils this role and its terms of reference set out that its main purpose 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..."*

1.3 The evidence contained in this report will be shared with the CCG's Governing Body and also will be used to support the content of the organisations' Annual Governance Statement.

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

- 21 April 2015
- 21 July 2015
- 20 October 2015
- 23 February 2016

As part of the process of signing off the CCG's Annual Report, Finance Accounts and reports from the External Auditors the committee also held an additional meeting on 26 May 2015. Details of the attendance at all of these meetings are enclosed at Appendix 1 for information.

1.5 The committee has also met in private during the year to receive updates on issues highlighted last year from an internal audit report. The committee has also been updated on the process for re-procuring internal audit services that has been undertaken during the year.

1.6 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 two other independent Lay Members. All of the members of the committee have a wealth of experience of financial and governance matters which they bring to the committee's work.

1.7 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 2015/2016

2.1 The Audit and Governance Committee is the CCG's 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. In addition the committee itself considered a draft of this report in February as an indication of how effectively the terms of reference had been met along with a broader review of effectiveness in line with national best practice which is detailed below. It was concluded that the committee had achieved a good coverage across the terms of reference during the year and discharged its terms of reference effectively.

### Internal Audit

2.3 The committee has maintained an overview of progress with the Chief Internal Auditor's work plan for the year, which was approved in April 2015. This has included an update at scheduled meetings on both progress with the plan and with management actions taken in response to previous audit reports. The committee has had the opportunity to comment on specific elements of the work plan as well as receiving assurance on the development of the internal audit opinion for the year, which has been conducted as an iterative process. The updates on the management action plan have provided assurance that the CCG is responding to issues raised during the audit process.

2.4 The Chief Internal Auditors' Opinion for 2014/15 was presented at the committee's meeting in April and noted in May 2015 that the Internal Auditor's overall opinion for the year was that Significant Assurance can be given, which means that the CCG has a generally sound system of internal control, designed to meet the organisation's objectives and that controls are generally being applied consistently but there are some weaknesses in either the design or application of some controls that put the achievement of particular objectives at risk. These reports also highlighted actions that would be taken in some areas to ensure systems of control moved from adequate (where there are more significant weaknesses) to substantial assurance.

2.5 Reports were also presented on more detailed elements of audit work on the CCG's QIPP programme (following up on work during 2014/15) and in relation to contracting and procurement. This included details of audits of individual procurements and management action as a result, including training for staff and Governing Body work.

2.6 Other work conducted by the committee has included a review of the Internal Audit function's Audit Charter, which set out how they would meet nationally recognised best practice. The internal audit service have also provided the committee with details of their compliance with Public Sector Audit Standards.

- 2.7 The CCG has conducted a procurement exercise for internal audit services during the year and has appointed a new provider. Discussions to ensure a smooth transition between providers will continue in preparation for the new contract being implemented.

### External Audit

- 2.8 The committee received the formal report to those charged with Governance from the External Auditors in May 2015. This set out that an unqualified opinion would be issued on the financial statements and the use of resources. A minor misstatement in the accounts was reported, however this was not considered to be material and, in agreement with the Chief Finance Officer, it was decided not to amend the accounts. This was reflected in the Management Representation Letter signed off in May 2015. The committee went on to consider the Annual Audit Letter, the public summary of the audit, in July 2015.
- 2.9 The CCG's new auditors, Ernst and Young have been attending committee meetings during the year to provide an update on their audit plan for the CCG. This included details of the fee for 2015/16 and key risk areas that are being considered as part of the audit process. In particular they outlined that the pooled budget with City of Wolverhampton Council for the Better Care Fund will be a key area of consideration. The committee discussed how the interaction between the CCG and Council external audit processes would operate.
- 2.10 An update on the audit for 2015/16 was presented at the February 2016 meeting and the final results of the audit for 2015/16 will be considered in the next financial year, as part of the annual reporting process.
- 2.11 The committee has also been involved in the preparations for the CCG to appoint its own auditors as required by the Local Audit and Accountability Act 2014. This will involve the appointment of an Auditor Panel to advise the Governing Body on this process. As the membership of the committee meets the legislative requirements, it has been recommended that the Governing Body appoint the committee to act as its Auditor Panel. Terms of Reference for this new duty have been developed and agreed by the Governing Body.

### Governance

- 2.12 As in previous years, the committee has focussed attention on the wider governance arrangements for the CCG. Including the issues identified through the development of the Annual Governance statement. The committee received an update on this in October 2015 and a first draft was presented to the February meeting prior to final versions being produced to form part of the Annual Report.
- 2.13 The reports the committee have received on the Governance Statement also detailed the CCG's assessment against the UK Corporate Governance Code as, whilst compliance with the Code is not mandatory, this serves as a useful benchmarking tool against wider national best practice beyond the NHS. This has included details of further work across the CCG to improve levels of compliance, including the induction of new members of the CCG's Governing Body.
- 2.14 The committee's other work on governance has focussed on ensuring that existing CCG policies are operating effectively. This included a review of the operation and effectiveness of the CCG's Whistleblowing Policy, with the committee recognising

continued steps by the CCG to meet the highest standards of probity in this area by appointing a freedom to speak up guardian in line with national recommendations.

- 2.15 More recently, the committee has reviewed the CCG's policy for Declaring and Managing Interests policy, making minor adjustments to ensure that the policy remains fit for purpose in line with national guidance. New guidance is expected in April 2016 and the committee will ensure that any further changes required to respond to this new guidance are incorporated.
- 2.16 As part of the continuous assurance the CCG provides to NHS England in line with the national framework, the committee has considered the CCG's self-assessment of its financial control environment. This forms part of the assurance for the Financial Management Domain of the framework. The committee has noted the level of assurance provided to the Area Team has been 'Assured as Good' and the work plan in place to make the necessary improvements to become 'Outstanding'.

### Assurance/ Risk Management and Internal Control

- 2.17 As detailed in the Annual Governance statement, the committee plays a key role in the CCG's risk management arrangements by providing a scrutiny role that provides assurance across the wider governance arrangements. The committee has received regular reports on the CCG's risk register and Board Assurance Framework to enable it to fulfil this role. This has included details of specific risks and details of development of the Board Assurance Framework to reflect changes in the CCG's Assurance Framework. The committee have also commented on the presentation of the register to suggest improvements to allow a clearer sense of the change in the overall number of risks from quarter to quarter.
- 2.18 The committee has also begun a process of receiving additional assurance around particular areas in the form of a 'deep-dive'. One such review was conducted into commissioning and contracting process, in particular action taken to address contractual performance. The committee were given an overview of the processes undertaken and the ways in which actions such as contractual levers were applied. Details were given of refinements to the CCG's strategic and tactical approach to this process and the committee were assured that effective measures were in place. The committee plans to continue this approach in the new financial year.
- 2.19 Regular assurance reports from the Local Counter Fraud Specialist have also been received during the year, highlighting work to proactively make improvements against national standards for commissioners. These reports have provided the committee with assurance that there have not been any major areas of concern during the year, and that the CCG has appropriate policies and procedures in place to meet its responsibilities in these areas.

### Accounting Matters

- 2.20 As part of its role to monitor the integrity of the CCG's Financial Statements, the committee reviewed the CCG's Annual Report and accounts for 2014/15 in April 2015, and signed off the final version in May 2015. Details of preparation for this year's year end were considered in February 2016 and further discussions will take place in subsequent meetings.
- 2.21 There were regular reports to each scheduled meeting on any deviations from standard financial processes such as losses and compensation payments, breaches and suspensions of Standing Orders and Receivable/Payables over £10,000 that



were more than 6 months old. There were no significant issues reported during the year.

- 2.22 The committee has also reviewed proposed changes to the CCG's Prime Financial Policies, which were subsequently fed into an application for a variation of the CCG's constitution. No significant changes were proposed to the Financial Policies, although changes were made to ensure that the Prime Financial Policies and Detailed Financial Policies were consistent with the provisions set out in the CCG's Constitution.
- 2.23 Other matters considered by the committee included details of changes to the Government banking service and a request to approve the continuation of the CCG's risk sharing arrangement with Dudley CCG. Both of these matters supported the committee in maintaining its oversight of the CCG's financial arrangements.

### **3. Review of Effectiveness**

- 3.1 In addition to the assessment of individual agenda items detailed above, the members of the committee have also participated in an exercise to assess wider issues that affect the committee's ability to undertake its role. This exercise incorporates views on both the responsibilities of the committee and whether the members have access to appropriate resources (including information, skills and experience) to participate fully in the discharge of the committee's functions.
- 3.2 The committee discussed the outcomes of the assessment at its February meeting using the principles outlined in guidance from HM Treasury for Audit Committees. These discussions highlighted areas for continuous improvement and concluded that, the committee was broadly meeting the principles and operating effectively.
- 3.3 Committee members have a clear understanding of what is expected in their role and feel there is a clear balance between items for the committee and the Governing Body. The committee also feels it has appropriate oversight to monitor and review the executive's processes for assessing, reporting on and owning risk management. In order to support wider understanding of the role of the committee within the organisation, arrangements have been made to share the terms of reference for the committee and its new Auditor Panel with the Governing Body.
- 3.4 The committee feels that it is aware of key issues that are addressed at Board level and that it is effective in bringing key items of concern from its own work to appropriate persons in the CCG. The committee notes that there is an opportunity to declare conflicts at the start of every meeting, and appropriate action taken when relevant matters are discussed. To support the committee in communication of CCG wide issues, independent members of the committee are copied into Governing Body papers.
- 3.5 Committee members feel that they have the appropriate skills mix to deliver the committee's role and that induction processes for new members enable them to rapidly understand the work of the committee. The committee chair receives an appraisal from the Chair of the Governing Body and whilst formal appraisals do not take place for other committee members, their on-going development relevant is supported by sharing national updates and learning from networks and events on a regular basis.



- 3.6 The committee is satisfied that its work programme covers the assurance needs of the Governing Body and Accountable Officer through a balance of agenda items and that there is enough consideration and challenge on the work of both Internal and External Audit. The committee tracks the implementation of Auditors' recommendations and reviews the arrangements for anti-corruption procedures. The committee reviews the draft Governance Statement and advises the Accountable Officer and Governing Body on its preparation and scope. It also undertakes a robust review of the Annual Report and Accounts in a timely fashion.
- 3.7 The committee feels that communication with the Governing Body and other committees is both adequate and effective. The committee also feels that its Annual Report includes all matters consistent with good practice and is timed to assist in the preparation of the Governance statement. The committee identifies opportunities to make improvements, for example to reporting information and effectiveness, during its discussions.

## **4. Conclusions**

- 4.1 The committee has continued in its development during 2015/16, undertaking new approaches to its work whilst continuing to meet its obligations effectively during the year. The independent makeup of the committee has played a vital role in ensuring that this work is conducted in a way that provides constructive challenge to the CCG's Governing Body and Management team.
- 4.2 Following on from another productive year, the committee looks forward to the challenges for 2016/17. In particular, the CCG's continued progress towards co-commissioning of Primary Care will be an area that will be closely monitored, along with work across the health economy to deliver the Sustainability and Transformation Plan required by the Five Year Forward View.

## Appendix 1 – Attendance at Meetings

	21.4.15	26.5.15	21.7.15	20.10.15	23.2.16
<b>Members</b>					
Jim Oatridge, Lay Member, CCG, (Chair)	√	√	√	√	√
Peter Price, Lay Member, CCG	√	√	√	√	√
Les Trigg, Lay Member, CCG	√	√	√	√	√
<b>In regular attendance</b>					
Gary Mincher, Internal Audit, WMAS	√	√	√	√	√
Joanna Watson, External Audit, PWC	n/a	n/a	√	n/a	√
Mark Jones, External Audit, PWC	√	√	n/a	n/a	n/a
Claire Skidmore, Chief Finance and Operating Officer, CCG	√	√	√	√	√
Sarah Southall, Head of Quality & Risk, CCG	√	n/a	√	√	√
Peter McKenzie, Corporate Operations Manager, CCG	√	X	√	√	√
John Kelly, Local Counter Fraud Specialist, WMAS	√	√	√	√	√
Mark Surridge, Senior Manager, E&Y	n/a	n/a	√	√	√
Hassan Rohimun, Executive Director E&Y	n/a	n/a	√	√	√
<b>Ad Hoc attendance</b>					
Steve Phillips, Head of Contracting and Procurement, CCG	n/a	n/a	√	n/a	n/a
Lynne Baber, External Audit, PWC	n/a	√	n/a	n/a	n/a
Alan Lakin, Regional Head of Internal Audit, WMAS	n/a	n/a	√	n/a	n/a
Colin Larby, Deputy Head of Audit and Assurance	√	√	√	√	√
Maria Tongue, Head of Financial Resources, CCG	n/a	√	n/a	n/a	n/a
Lesley Sawrey, Deputy Chief Finance Officer, CCG	n/a	√	n/a	n/a	n/a
Helen Hibbs, Chief Officer, CCG	√	√	n/a	n/a	n/a

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

The specific duties required of the AGC are:

- i. reviewing the group's adherence to the principles of good governance (constitution 4.4.1);
- 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 the NHS England Board (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. considering reports on any suspension of Standing Orders at any meeting (SO 3.9) and any non-compliance with Prime Financial Policies, determining any referring action or ratification (PFP 1.2.1);
- v. 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 and which supports the achievement of the group's objectives. In particular, the AGC 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;
- 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.

In carrying out this work the AGC will primarily utilise the work of internal audit, external audit and other assurance functions. It will also seek reports and assurances from those working for and providing services to the group as appropriate.

This will be evidenced through the 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 satisfy itself that there is an effective internal audit function that meets mandatory Public Sector Internal Audit Standards and provides appropriate independent assurance. 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 of internal audit.

### **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. 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;
- reviewing all external audit reports including the report to those charged with governance and the annual audit letter before its submission to the group.

### **Other assurance functions**

The AGC will 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 committee's Chair.

### **Counter fraud**

The AGC will 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 workplan and review the outcomes of counter fraud work (PFP 4.2 – 4.3).

### **Management**

The AGC will, as appropriate, request and review reports giving assurance or identifying risks from senior managers and those responsible for providing services to the group.

### **Financial reporting**

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

The AGC will 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 committee;

- 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 letter of representation before it is signed on behalf of the governing body; and
- qualitative aspects of financial reporting.

