

ANNUAL REPORT

Audit and Governance Committee 2016/2017



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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 Audit and Governance Committee during the financial year. The committee's duties and responsibilities are set out in its terms of reference, which are part of 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:

- 19 April 2016
- 19 July 2016
- 15 November 2016
- 21 February 2017

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 24 May 2016. 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 consider the implications of an internal audit conducted by one of the CCG's providers. Following changes to national legislation relating to the process of appointing external auditors, the members of the committee were also appointed as the CCG's Auditor panel and met separately to recommend the appointment of new external auditors to the Governing Body.

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. During the year, one of our independent members, Peter Price, was successfully appointed as Governing Body Lay Member for Finance and Performance. In November, we were delighted to welcome Dean Cullis as our new independent member.

1.7 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 2016/2017

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.

Internal Audit

2.3 As detailed in last year's report, the CCG has changed its internal audit provision for 2016/17 following a competitive procurement process. The previous providers, West Midlands Ambulance Service presented their annual report and a draft of the head of internal audit opinion at the meeting in April and their final opinion at the May meeting as part of the committee's sign off of the annual accounts. The Head of Internal Audit's Opinion was that significant assurance could be given and highlighted a number of areas of improved performance as a result of implementing previous audit recommendations.

2.4 PriceWaterhouseCoopers (PwC) who are the CCG's new internal audit service providers presented their internal audit plan at the April meeting. This highlighted that the plan had been developed in conjunction with CCG management and followed a risk based approach. The committee queried some of the elements of the plan, including requirements for audits of conflicts of interest and information governance before endorsing the plan for the year ahead.

2.5 The committee has subsequently received progress updates on progress with the plan in July, November and February. These updates have included details of completed audit reports and the recommendations that have been made. Internal audit work that has taken place has included reviews of Corporate Governance, Risk Management and Contract Management, further details on some of these reviews are highlighted elsewhere in the report and in the CCG's Annual Governance Statement.

2.6 The review into risk management arrangements identified a number of weaknesses, including issues how the CCG's Board Assurance Framework (BAF) is structured, how risks are owned and managed and the level of scrutiny provided through the risk management process. The committee has sought and is continuing to seek assurance that actions are being put into place to address these weaknesses and has noted that PwC have supported the CCG's management team in developing an

action plan, further details of which are provided later in this report and in the CCG's Annual Governance Statement.

- 2.7 Other business considered by the committee under this heading includes the Internal Audit Charter and regular updates on progress with recommendations from previous audit reviews. These reports have detailed that the vast majority of previously agreed actions from audit reviews from 2015/16 have now been implemented in full.

External Audit

- 2.8 The CCG's External Auditors, Ernst Young, presented their report to those charged with Governance at the committee's May 2016 meeting. This outlined that they expected to issue an unqualified opinion on the CCG's financial statements and regularity of income and expenditure and did not expect to report any matters in relation to Value for Money. This opinion was confirmed at the July meeting when the committee received the Annual Audit Letter.
- 2.9 One minor matter was reported to the committee in relation to the treatment of journals in the External Auditors report in April. The committee received assurance that this was not an uncommon finding in an organisation of the CCG's size and that the finding was not material to the accounts. The report to those charged with Governance noted that this issue had been tested and no issues were reported as a result. The report also detailed a misstatement within receivables and payables and, following technical assurance from the Chief Finance and Operating Officer, the committee agreed that the accounts would not be changed as this was not material and changes would introduce an additional level of risk related to making manual changes to the accounts.
- 2.10 The Report to those charged with governance highlighted the increasing complexity of the CCG's operating arrangements, including collaboration with the local authority and changes in the commissioning landscape. This includes additional responsibilities for commissioning primary care and the potential for closer collaboration with other CCGs as part of the Sustainability and Transformation Plan. As a result, the external auditors recommended that the CCG kept its governance arrangements under review. The committee noted plans to include Corporate Governance arrangements in the Internal Audit plan for 2016/17 and have been updated on other developments relating to governance throughout the year.
- 2.11 At subsequent meetings, the External Auditors have provided an outline of plans for this year's external audit work as well as providing an overview of the external audit landscape. Details are highlighted below of the process undertaken by members of the committee acting as the Auditor Panel to appoint new external Auditors for the CCG for the upcoming year.

Governance

- 2.12 The committee has responsibility for maintaining an overview of the CCG's governance arrangements. During this year, the committee has responded to the development of national statutory guidance for the management of conflict of interests for CCGs. An overview of draft guidance was presented at the April 2016 meeting and the committee authorised the Corporate Operations Manager to respond to NHS England's consultation on the draft on its behalf. Following publication of the final guidance, the committee ratified the new CCG policy for Declaring and Managing Interests in July 2016.

- 2.13 In supporting the new policy, the committee noted that the CCG had already anticipated many of the provisions in the revised guidance and that the changes to the policy itself were relatively minor. The committee are also due to receive the outcome of the internal audit review of conflict of interest arrangements, details of which will be reported in the Annual Governance Statement.
- 2.14 One of the consequences of the new statutory guidance was the recommendation that CCGs should include an additional Lay Member on their Governing Body. This recommendation was timely as the CCG was already considering the appointment of a lay member on to its Finance and Performance committee and took the decision to make this appointment a Governing Body position. As highlighted above, as the role profile fitted the individuals serving on the Audit and Governance Committee, it was agreed to recruit to this position from the membership. Following Mr Price's appointment to the governing body, the committee's membership was reviewed and it was agreed that Mr Trigg would be appointed as Deputy Chairman provide addition support to the Chairman and, in November, Mr Cullis was appointed to fill the final vacancy on the committee.
- 2.15 The committee's other business in this area has included a review of the CCG's whistleblowing policy, including its application to Governing Body Members, and regular reports on the development of the Annual Governance Statement. The committee also considered the draft of the CCG's annual report at its April meeting and the final version in May, including the final version of the Governance Statement.

Assurance/ Risk Management and Internal Control

- 2.16 The committee plays a key role in the CCG's risk management arrangements and was advised in April that the risk management strategy had been revised and were given detail of on-going work to ensure that risk management was 'owned' across the organisation. Subsequent reports to the committee on risk management arrangements and the risk register aimed to provide assurance to the committee of progress in this area.
- 2.17 In November, the headlines from an internal audit report into risk management arrangements was considered, including a number of high risk recommendations. These recommendations have informed an on-going work plan to develop the CCG's risk management arrangements, including a re-structuring of the BAF and greater involvement of Governing Body committees in managing their own risk profile. This will also see a change in the Audit and Governance committee's specific role in the risk management process. The Executive Director of Nursing and Quality has kept the committee informed of progress with this work during the year with reports in November and February. Further details will also be included in the Annual Governance Statement.
- 2.18 The committee has also received assurance around the CCG's processes for monitoring contractual performance and activity with providers. This followed the publication of a report relating to a whistleblowing incident at Royal Wolverhampton Trust relating to clinical coding. The committee was assured by the report and agreed to conduct an audit of clinical coding to evidence the CCG's ongoing commitment to ensuring value for money.
- 2.19 The committee continued to maintain an oversight of assurance in other areas, including the CCG's arrangements for countering fraud. As with internal audit services, the CCG has moved to a new provider during this financial year and the

committee has considered annual reports from the outgoing provider and approved a risk based work plan with the new provider.

- 2.20 During the year, two referrals to the counter fraud specialist have been closed, one relating to overcharging for prescriptions and another related to temporary registration with a GP practice. No grounds for a case found in either case and no action was taken.
- 2.21 Updates have also been received for assurance from the CCG's Local Security Management Specialist. This has been a new area of work for the committee and the committee has approved a number of policies related to security management.

Accounting Matters

- 2.22 As part of its work reviewing the Annual Report, the committee was mindful of its role in monitoring the integrity of the CCG's Financial Statements. This involved reviewing a working draft of financial statements in April 2016, and signed off the final version in May 2016 with the rest of the annual report. The committee noted that the timescales facing the finance team to produce the financial statements were particularly challenging, and congratulated the team on achieving this.
- 2.23 In addition to this significant piece of work, there have been 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. No significant issues have been reported during the year and the committee sought and gained assurance from the Chief Finance and Operating Officer on a number of queries.
- 2.24 The committee has also reviewed proposed changes to the CCG's Prime Financial Policies in July 2016, which were subsequently fed into an application for a variation of the CCG's constitution.

3. Review of Effectiveness

- 3.1 In previous years, the committee has undertaken a review of its effectiveness using a self-assessment tool for Audit Committees developed by the Department for the Environment, Food and Rural Affairs. These reviews have not identified any significant issues and the committee has been able to demonstrate to the Governing Body that it is operating effectively and that it has identified any areas for development.
- 3.2 Due to the changes in committee membership during the year, it is not considered to be appropriate to undertake this self-assessment at this stage. The committee remains committed to continuous improvement and plans to undertake this exercise in Autumn 2017, with full details to be included in the Annual Report for 2017/18.

4. Auditor Panel

- 4.1 As highlighted above, following the introduction of the Local Audit and Accountability 2014, the committee was appointed to act as the CCG's Auditor Panel. The primary role of the panel is to advise the Governing Body on the appointment of the external auditors by agreeing and overseeing a robust selection process and making a recommendation to the Governing Body for an appointment. The committee has been appointed to ensure that the legislative requirement for the Auditor Panel to be made up of independent, non-executives was met.
- 4.2 The panel have met during the year to oversee a selection procedure that was in line with both national requirements and the CCG's own procurement policies and procedures. At the conclusion of this exercise the Panel have recommended that Grant Thornton be appointed as the CCG's new External auditors from 2017/18. On the Panel's recommendation, the Governing Body subsequently made this appointment in November 2016.
- 4.3 Following the appointment of Grant Thornton, the Auditor Panel has a number of other duties relating to the CCG's on-going relationship with them as external auditors. This includes advising the Governing Body generally on the maintenance of an independent relationship with them and providing specific advice on issues such as entering liability limitation agreements and purchasing non-audit services. The Panel would also be required to advise the Governing on any decision to remove Grant Thornton or alternative action to take if they resigned. The Panel will therefore continue to meet during 2017/18 to fulfil these duties.

5. Conclusions

- 5.1 The committee has had another busy and successful year and believes that the evidence presented in this Annual Report demonstrates that it has met its terms of reference. As highlighted above, the committee will continue to look for opportunities to develop further, including conducting a further self-assessment of effectiveness in the Autumn .
- 5.2 For the upcoming year, the committee will continue to focus on ensuring that the CCG has robust governance arrangements in place to help it face the challenges of the ever changing NHS landscape. This will include ensuring that the refreshed risk management arrangements are probably established and operate effectively and that the implications of closer collaboration with the other CCG's in the Sustainability and Transformation Plan footprint are fully assessed, understood and reflected in governance arrangements.

Appendix 1 – Attendance at Meetings

	19 April 2016	24 May 2016	19 July 2016	15 November 2016	21 February 2017
Members					
Jim Oatridge, Lay Member, CCG, (Chair)	√	√	√	√	√
Peter Price, Lay Member, CCG	√	√	√	N/a	
Les Trigg, Lay Member, CCG	√	√	√	√	√
Dean Cullis, Lay Member, CCG	N/a			√	√
In regular attendance					
Joanna Watson, Internal Audit, PwC	n/a	X	√	√	X
Dominca Kortus, Counter Fraud Specialist, PwC	√	√	√	√	X
Claire Skidmore, Chief Finance and Operating Officer, CCG	√	√	√	√	√
Peter McKenzie, Corporate Operations Manager, CCG	√	√	√	√	√
Mark SurrIDGE, Senior Manager, E&Y	√	√	√	√	X
Hassan Rohimun, Executive Director E&Y	√	√	√	√	√
Shaun Grayson, Local Security Management Specialist, CW Audit	N/a		√	√	X
Ad Hoc attendance					
John Kelly, WMAS Counter Fraud Specialist	√				
Colin Larby, WMAS Head of Audit and Assurance	√				
Gary Mincher, WMAS Internal Audit	√				
Dr Helen Hibbs, Chief Officer, CCG	√	√			
Dr Dan DeRosa, Chair, CCG		√			
Manjeet Garcha, Director of Nursing and Quality, CCG				√	
Sarah Southall, Head of Quality & Risk, CCG	√				
Maria Tongue, Head of Financial Resources, CCG			√		
Alison Breadon, Internal Audit, PwC	√			√	
Neil Mohan, Counter Fraud Specialist, PwC				√	
G Lakh, Couter Fraud Specialist, PwC					√
V Sarjan, Manager E&Y					√

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.