

Audit Committee Annual Report 2013/14

1. Purpose of the Report

- 1.1 To review how the Audit Committee (the Committee) has met its Terms of Reference and fulfilled the role set out in relation to the financial year ended 31st March 2014

2. Background

- 2.1 The Committee is established in accordance with NHS Vale of York Clinical Commissioning Group's (the CCG) constitution.
- 2.2 The Committee's primary role is to critically review the CCG's financial reporting and internal control principles and ensure an appropriate relationship with both internal and external auditors is maintained.
- 2.3 Whilst it is clearly the responsibility of the CCG's Senior Management Team to establish and maintain proper processes for governance, the Committee independently monitors, reviews and reports to the Governing Body on those processes and, where appropriate, facilitates and supports effective delivery.

3. Governance, Risk Management and Internal Control

- 3.1 Mr Keith Ramsay, Lay Member and Chair of the Audit Committee and Dr Guy Porter, Governing Body secondary care clinician, were both in place throughout the financial year April 2013 to March 2014, but there were a number of significant changes in the membership and attendance at the Committee. Attendance at Committee meetings is reported in Appendix 2.
- 3.2 Mr John McEvoy, Practice Manager Governing Body Member, came into position with the Committee from July 2013.
- 3.3 Mr Adrian Snarr was in attendance as Chief Finance Officer up to June 2013 with Mr Kevin Howells covering as Interim Chief Finance Officer from July to October 2013. The CCG appointed a new, permanent Chief Finance Officer, Mrs Tracey Preece, in November 2013.
- 3.4 Mrs Carrie Wollerton was in attendance as Executive Nurse up to July 2013 with Dr Wendy Barker Acting Executive Nurse from July 2013 to December 2014. The CCG appointed a new, permanent Executive Nurse, Miss Lucy Botting, in January 2014.
- 3.5 When the CCG came into existence on the 1st April 2013 it was authorised with the following Conditions and Directions:

- The CCG must have a clear and credible integrated plan that meets authorisation requirements
 - The CCG must have detailed financial plan that delivers financial balance, sets out how it will manage within its management allowance, and is integrated with the commissioning plan
 - Demonstrate that QIPP is integrated within all plans and clearly explain any changes to existing QIPP plans
 - Demonstrate how proposed staff resource and any contracted commissioning support will provide capacity and capability to deliver its full range of responsibilities.
- 3.6 The Committee continued to review how further developments could be made so that the necessary assurances on fundamental internal controls were achieved and supported the removal of the above. This included the following key areas:
- The organisation's committee structures and associated terms of reference
 - The organisational staff structure
 - Establishment of a Detailed Financial Procedures, Scheme of Delegation and Procurement Policy
- 3.7 The transition from Conditions, with Directions, to a fully authorised CCG meant that NHS England continued to support the CCG as part of its on-going assurance role. However, in respect of authorisation, the evidence submitted throughout the year was cross referenced against the outstanding conditions and the thresholds for all four remaining criteria were met. Hence it was recommended that all outstanding Conditions and consequently Directions be removed in December 2013.
- 3.8 The Committee considered the Healthcare Financial Management Association Audit Committee survey 2013 and the consultation about proposed new constitutional requirements for NHS Trusts and CCGs Audit Committees in January 2014. Common themes were related to a need to increased independent and lay representation, increase the number of meetings and ensure the remit of the Committee was sufficiently wide to cover all clinical and non-clinical audit requirements. The Committee agreed to increase the number of meetings to 5 annually, 4 regular and 1 dedicated to the accounts, and subsequently contributed to a discussion and decision at the Governing Body to appoint an additional lay member to the organisation with a specific role in Governance.

4. Internal Audit

- 4.1 The Committee approved the Internal Audit Plan for 2013/14 at its meeting in April 2013. This was followed up with regular reviews of progress against the audits in the plan and the outcomes of the various

reviews carried out, with the Internal Auditors being regular attendees at the meetings to provide these updates.

4.2 The audit plan covered the following Areas of Audit:

- Governance
- Service Level Agreements
- Quality Improvement
- Commissioning and Contract Management
- Lead Commissioning and Collaboration
- Vulnerable Adults and Children's Commissioning Unit
- Stakeholder Engagement
- Partnerships and Pooled Budgets
- Financial Management and Budgetary Control
- Interface with Financial and Payroll Systems
- Quality, Innovation, Productivity and Prevention (QIPP)
- Information Governance Toolkit

4.3. A total of 140 days were allocated for this work, of which 15 were for the Management of Audit, 5 for Follow Up of Audit Recommendations and a further 15 were held as a Contingency / Client Directed. All 140 days were used in 2013/14.

4.4 The recommendations of the Francis Report were incorporated into the audits agreed in the audit plan, thus ensuring they were addressed as part of core business and processes.

4.5 In June 2014 the Committee received the Head of Internal Audit opinion relating to the financial year 2013/14. This opinion confirmed that significant assurance could be given that there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, some weakness in the design and / or inconsistent application of controls put the achievement of particular objectives at risk. Where weaknesses have been identified, an action plan is in place to address the issue.

4.6 One of the first actions of the CCG was to review the transfer of outstanding risks from NHS North Yorkshire and York on its dissolution. Where appropriate these were incorporated into the CCG's own risk framework. This was supplemented by the adoption of outstanding audit recommendations from NHS North Yorkshire and York that have continued to be routinely tracked and reported to the Committee.

4.7 The outcome of the audit reports presented to the CCG from the 2013/2014 audit plan are summarised below.

Audit	Assurance Level
Governance	Significant
Management of the Service Level Agreement with the CSU	Significant
Securing Improvements in Quality	Significant
Delivery of Commissioning Priorities (including QIPP)	Limited
Contract Management	Significant
Interim Assessment of Financial Controls	Significant
Follow Up to Interim Assessment of Financial Controls	Significant
Payroll Verification	Limited Revised to Significant
Information Governance Toolkit	Significant
Partnership Commissioning Unit – Financial Reporting Processes	Limited

5. External Audit

- 5.1 The Audit Commission appointed Mazars LLP as External Auditors for all the North Yorkshire and York CCGs and the Committee noted the appointment of Mark Kirkham as Director and Mrs Catherine Andrew as Senior Manager, to manage the contract to the CCG.
- 5.2 Representatives of External Audit attend each Audit committee meeting and have regular liaison meetings with the Accountable Officer, Chief Finance Officer and Chief Operating Officer.
- 5.3 The fee to External Audit for work undertaken included the opinion on the financial statements, the review of the Annual Governance Statement and the opinion on Value for Money.
- 5.4 The audit fee was £80k net for 2013/14. There were no additional pieces of work commissioned from the External Auditors during 2013/14. However, the audit commission did fund the one-off fee in view of the additional work due to CCGs being new bodies and therefore no availability of work from previous years.
- 5.5 Mazars LLP carried out the audit in accordance with the Code of Audit Practice for NHS bodies as issued by the Audit Commission and delivered all expected outputs in line with the timetable established by the Department of Health and NHS England. Mazars subsequently issued the CCG with an unqualified opinion on the Annual Accounts 2013/14.

6. Local Counter Fraud Service

- 6.1 The Committee approved the 2013/14 plan in April 2013. The 20 days within the plan were allocated in accordance with the generic counter fraud areas of:

- Strategic Governance
 - Promoting an anti-fraud culture
 - Preventing fraud
 - Where it cannot be deterred, detecting fraud
 - Professionally and objectively investigating suspicions of fraud where they arise
 - Consistently applying a range of sanctions where fraud is proven
 - Seeking redress to recover funds obtained through fund
- 6.2 The Local Counter Fraud Specialist, Mr Steven Moss, is a regular attendee at Committee meetings and provides regular updates on proactive and reactive counter fraud work.
- 6.3 In regard to the former an Anti-Fraud, Bribery and Corruption Policy was developed in-year, following feedback from the new Chief Finance Officer. Counter fraud promotion took place with the CCG and the Commissioning Support Unit (CSU) and guidance and alerts were circulated.
- 6.4 In relation to reactive counter fraud work there have been two investigations which the CCG has complied with. Information was shared nationally as appropriate with regards to these and within the information governance and data protection regulations.
- 6.5 The total number of days used was 14.5.

7. Other Assurance Functions

- 7.1 In terms of Commissioning Support Unit (CSU) governance a Programme Board had been established as an Advisory Committee with independent lay advisers. Functions and responsibilities were delegated from NHS England to the CSU Managing Director who delegated functions to the Advisory Committee through an internal operational framework.
- 7.2 The Committee received the International Standards on Assurance Engagements (ISAE) 3402 reports - Type II Report for the period 1 October 2013 to 31 March 2014, Type II Report for the period 1 January 2014 to 31 March 2014 and Type I Report as at 14 March 2014 – produced by the CSU's independent auditors, Deloitte. These related to Contract Management, IT, Payroll, Finance and Accounting, and Quality Management. There were significant concerns raised relating to the timeliness and quality of these reports as they were received very late in the financial year. This raised questions about the ability of the Committee to rely on their content for assurance purposes. This was discussed in detail with Jon Cooke, Chief Finance Officer at the CSU and the Committee were assured of an improved process for 2014/15.

- 7.3 A traditional audit review during October with a service auditor report informed by objectives identified through the audit has been undertaken. Clinical quality had received reasonable assurance with no exceptions and other areas had received reasonable assurance with identified exceptions noting, however, that this did not represent a lack of control mechanisms. All exceptions had either been addressed, or were in the process of being addressed, and lessons learnt in terms of capacity requirements and transparency and openness of communication.
- 7.4 In respect of the Service Level Agreement (SLA) between the Partnership Commissioning Unit (PCU) hosted by NHS Scarborough and Ryedale CCG and NHS Harrogate and Rural District CCG, NHS Hambleton, Richmondshire and Whitby CCG and the CCG, as the post of Director of the PCU was not filled until September 2013 only the finance schedule had been signed in December. Work had subsequently taken place by the four CCGs to agree the wording of the SLA. The Head of Integrated Governance worked with the PCU to agree governance arrangements to support delivery of services.
- 7.5 The CCG Chief Finance Officers agreed and the Accountable Officers approved, that the finance schedule 2013/14 risk share principles for programme and running costs be continued for 2014/15, with a review thereafter.
- 7.6 Preceding every Committee meeting, members of the Committee take the opportunity to have a discussion with the auditors without any officer of the Trust being present. The purpose of the discussion is to ensure that there are no matters of concern regarding the running of the organisation that should be raised with the Committee.
- 7.7 As at the 31st March 2014 the CCG had recorded no losses and there had been no write offs of CCG debts.
- 7.8 Assurance issues that were escalated to the Governing Body related to the PCU and CSU.

8. Future Plans

- 8.1 The Committee is constantly looking to develop the way that it works and improve the efficiency of the internal control systems across the organisation. In 2014/15 the Committee will continue to take particular cognisance of the level of QIPP and Better Care Fund requirements by the CCG due to the change in the economic environment taking assurance from the Auditors and the Quality and Finance Committee.
- 8.2 The Committee will continue to closely monitor assurance arrangements for the CSU and PCU as key partner organisations to the CCG. This will include monitoring the process for production of the service auditor reports (see section 7.2) which the CSU has already

started significantly earlier in the financial year 2014/15 and has engaged with CCGs around assurance requirements.

- 8.3 The Committee will undertake a review of Internal Audit and External Audit during 2014/15 and will also conduct a review of Audit Committee effectiveness. The Committee will also review the new recently updated and published Audit Committee Handbook and ensure current Terms of Reference, timetable and ways of working are compliant.
- 8.4 A new lay member of the Governing Body with a role in Governance and Deputy Chair of the Audit Committee, David Booker, has been appointed and will work with the Committee from August 2014.
- 8.5 The Committee will continue to review their Terms of Reference and will constantly seek the assurances required of the organisation that the systems of internal control are documented, fit for purpose and complied with consistently. These are included here in Appendix A.
- 8.6 The Committee will also further review the Scheme of Delegation to ensure it is up to date and covers all relevant areas including the PCU arrangements. Moreover, the aim is to have this and the Detailed Financial Policies supported by Financial Procedure Notes for the following:
 - Payroll
 - Petty Cash
 - Cash Drawdown
 - Accounts Payable
 - Losses and Special Payments
 - Agreement of Balances
 - Journals
 - VAT
 - Control Accounts
 - Management Accounts
- 8.7 The Committee will continue to report to the Governing Body on a regular basis.

9. Conclusion

- 9.1 The work of the Audit Committee is a central part of CCG's governance and assurance arrangements. Through carrying out this work, the Audit Committee has conducted itself in accordance with its Terms of Reference (see Appendix 1) and work plan.
- 9.2 As a result of the activity undertaken by the Audit Committee improvements have been made to the CCG's control framework and assurances have been obtained and communicated to the Governing Body as follows:

- The CCG is operating within the law and regulations covering the NHS;
- An effective system of control is maintained;
- Arrangements are in place to protect the CCG's assets;
- Effective financial reporting and monitoring mechanisms are in place;
- An effective system of governance exist in the CCG;
- An effective system of risk management is being established with further developments agreed;
- A robust process has been agreed to assess the effectiveness of Internal Audit which will be reported upon in 2014/15;
- The external auditors have operated independently and have been able to issue an unqualified opinion on the accounts for 2013/14;
- In relation to the value for money opinion the external auditors concluded that arrangements for financial planning, commissioning and procurement were not in place for the whole year but were developed during the year;
- The CCG has in place arrangements for managing fraud which will be kept under review subject to anticipated regulations and commissioning standards.

10. Recommendations

10.1 The Governing Body is asked to receive the report.

NHS VALE OF YORK CLINICAL COMMISSIONING GROUP
Audit Committee
Terms of Reference
(for the financial year 2013/14)

1. Introduction

- 1.1 The Audit Committee (the Committee) is established in accordance with NHS Vale of York Clinical Commissioning Group's Constitution.
- 1.2 These terms of reference set out the membership, remit, responsibilities and reporting arrangements of the Committee and shall have effect as if incorporated into the constitution.

2. Membership

- 2.1 The Committee shall be appointed by the Clinical Commissioning Group as set out in the Clinical Commissioning Group's constitution and may include individuals who are not on the governing body. It shall consist of not less than three members:
- Lay Member with the lead role in governance
 - Governing Body secondary care clinician
 - A Practice Manager or GP
- 2.2 The lay member on the governing body, with a lead role in overseeing key elements of governance, will chair the Audit Committee.
- 2.3 The chair of the Governing Body will not be a member of the Committee.
- 2.4 In the event of the chair of the Audit Committee being unable to attend all or part of the meeting, he or she will nominate a replacement from within the membership to deputise for that meeting.

3. Attendance

- 3.1 In addition to the members of the Committee the Chief Finance Officer, Executive Nurse and the respective appointed external and internal auditors will normally attend meetings.
- 3.2 At least once a year the Committee should meet privately with the external and internal auditors.
- 3.3 Representatives from NHS Protect will be invited to attend meetings and will normally attend at least one meeting each year.

- 3.4 Regardless of attendance, external audit, internal audit, local counter fraud and security management (NHS Protect) providers will have full and unrestricted rights of access to the Audit Committee.
- 3.5 The Accountable Officer will normally attend and will discuss, at least annually with the Committee, the process for assurance that supports the annual governance statement.
- 3.6 The Chief Operating Officer will be invited to attend.
- 3.7 Any other directors (or similar) may be invited to attend, particularly when the Committee is discussing areas of risk or operation that are the responsibility of that director.
- 3.8 The chair of the governing body may also be invited to attend one meeting each year in order to form a view on, and understanding of, the Committee's operations.

4. Secretary

- 4.1 The secretary will be responsible for supporting the chair in the management of the Committee's business.
- 4.2 The Committee will also be supported administratively by the secretary, whose duties in this respect will include:
 - Agreement of agenda with chair and attendees and collation of papers
 - Taking the minutes
 - Keeping a record of matters arising and issues to be carried forward
 - Advising the Committee on pertinent areas

5. Quorum

A quorum shall be two members

6. Frequency and Notice of Meetings

- 6.1 A minimum of four (4) meetings will be held a year as set out in the Audit Committee Timetable. The Chair will agree dates and the secretary will give a minimum of 10 working days' notice of meetings.
- 6.2 The external auditors or head of internal audit may request a meeting if they consider that one is necessary

7. Remit and Responsibilities of the Committee

7.1 The Committee shall critically review the Clinical Commissioning Group's financial reporting and internal control principles and ensure an appropriate relationship with both internal and external auditors is maintained.

7.2 The duties of the Committee will be driven by the priorities identified by the Clinical Commissioning Group, and the associated risks. It will operate to a programme of business, agreed by the Clinical Commissioning Group that will be flexible to new and emerging priorities and risks.

7.3 The key duties of an Audit Committee will be broadly as follows:

7.4 Integrated Governance, Risk Management and Internal Control

7.4.1 The Committee shall review the establishment and maintenance of an effective system of integrated governance, risk management and internal control, across the whole of the Clinical Commissioning Group's activities that support the achievement of the Clinical Commissioning Group's objectives.

7.4.2 Its work will dovetail with that of any quality Committee (if in place), which the Clinical Commissioning Group could establish to seek assurance that robust clinical quality is in place.

7.4.3 In particular, the Committee 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 Clinical Commissioning Group.
- The underlying assurance processes that indicate the degree of achievement of Clinical Commissioning Group objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements.
- The policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self-certification.
- The policies and procedures for all work related to fraud and corruption as set out in Secretary of State Directions and as required by the NHS Counter Fraud and Security Management Service.

7.4.4 In carrying out this work the Committee 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 directors and managers as appropriate, concentrating on the over-arching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness.

7.4.5 This will be evidenced through the Committee's use of an effective assurance framework to guide its work and that of the audit and assurance functions that report to it.

7.5 Internal Audit

7.5.1 The Committee shall ensure that there is an effective internal audit function that meets mandatory NHS Internal Audit Standards and provides appropriate independent assurance to the Audit Committee, Accountable Officer and Clinical Commissioning Group. This will be achieved by:

- Consideration of the provision of the internal audit service, the cost of the audit 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 audit resources.
- Ensuring that the internal audit function is adequately resourced and has appropriate standing within the Clinical Commissioning Group.
- An annual review of the effectiveness of internal audit.
- Drawing the Committee's attention to best practice, national guidance and other relevant documents, as appropriate.

7.6 External Audit

7.6.1 The Committee shall review the work and findings of the external auditors and consider the implications and management's responses to their work. This will be achieved by:

- Consideration of the performance and independence 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 Clinical Commissioning Group and associated impact on the audit fee.
- Review of all external audit reports, including the report to those charged with governance, agreement of the annual audit letter before submission to the Clinical Commissioning Group and any work undertaken outside the annual audit plan, together with the appropriateness of management responses.

7.7 Other assurance functions

7.7.1 The Audit Committee shall review the findings of other significant assurance functions, both internal and external and consider the implications for the governance of the Clinical Commissioning Group.

7.7.2 These will include, but will not be limited to, any reviews by Department of Health arm's length bodies or regulators/inspectors (for example, the Care Quality Commission and NHS Litigation Authority) and professional bodies with responsibility for the performance of staff or functions (for example, Royal Colleges and accreditation bodies).

7.8 Counter Fraud

7.8.1 The Committee shall satisfy itself that the Clinical Commissioning Group has adequate arrangements in place for countering fraud and shall review the outcomes of counter fraud work. It shall also approve the counter fraud work programme.

7.9 Management

7.9.1 The Committee shall request and review reports and positive assurances from directors and managers on the overall arrangements for governance, risk management and internal control.

7.9.2 The Committee may also request specific reports from individual functions within the Clinical Commissioning Group as they may be appropriate to the overall arrangements.

7.10 Financial Reporting

7.10.1 The Audit Committee shall monitor the integrity of the financial statements of the Clinical Commissioning Group and any formal announcements relating to the Clinical Commissioning Group's financial performance.

7.10.2 The Committee shall ensure that the systems for financial reporting to the Clinical Commissioning Group, including those of budgetary control, are subject to review as to completeness and accuracy of the information provided to the Clinical Commissioning Group.

7.10.3 The Audit Committee shall review the annual report and financial statements before submission to the governing body and the Clinical Commissioning Group, focusing particularly on:

- The 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;
- Letter of representation; and
- Qualitative aspects of financial reporting.

8. Relationship with the Governing Body

8.1 The minutes of Audit Committee meetings shall be formally recorded by the secretary and submitted to the Governing Body. The chair of the Committee shall draw to the attention of the Governing Body any issues that require disclosure or executive action.

8.2 The Committee will report to the Governing Body at least annually on its work in support of the annual governance statement, specifically commenting on the fitness for purpose of the assurance framework, risk management arrangements in the organisation, and financial and governance arrangements.

9. Policy and Best Practice

9.1 The Committee is authorised by the Governing Body to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any member of the group and all employees are directed to co-operate with any request made by the Committee. The Committee is authorised by the Governing Body to obtain outside legal or other independent professional advice and to secure the attendance of outsiders with relevant experience and expertise if it considers this necessary.

10. Conduct of the Committee

10.1 The Committee will conduct its business in accordance with any national guidance and relevant codes of conduct / good governance practice, including Nolan's seven principles of public life.

10.2 The Committee will review, at least annually, its own performance, membership and terms of reference. Any resulting changes to the

terms of reference or membership will be approved by the governing body.

11. Review of Committee Effectiveness

- 11.1 The Committee shall undertake a review of its effectiveness at least annually.
- 11.2 The Committee shall be subject to any review of Vale of York Clinical Commissioning Group committees as required.

Appendix 2

Audit Committee Members Attendance April 2013 – June 2014

Name	Committee Membership From	Attendance
Keith Ramsay - Chair	Full year	6/6
Guy Porter	Full year	0/6
John McEvoy	July 2013	5/6