Reporting to:	**Trust Board, 2 June 2016**
Title	Audit Committee Annual Report
Sponsoring Director	Director of Corporate Governance
Author(s)	Head of Assurance
Previously considered by	Audit Committee (April 16)
Executive Summary	It is good practice to review the business of corporate committees annually. The annual report (attached) outlines the work of the Audit Committee over the year 2015/16.

Strategic Priorities	
1. Quality and Safety	☐ Reduce harm, deliver best clinical outcomes and improve patient experience. ☐ Address the existing capacity shortfall and process issues to consistently deliver national healthcare standards ☐ Develop a clinical strategy that ensures the safety and short term sustainability of our clinical services pending the outcome of the Future Fit Programme ☐ To undertake a review of all current services at specialty level to inform future service and business decisions ☐ Develop a sustainable long term clinical services strategy for the Trust to deliver our vision of future healthcare services through our Future Fit Programme
2. People	☐ Through our People Strategy develop, support and engage with our workforce to make our organisation a great place to work
3. Innovation	☐ Support service transformation and increased productivity through technology and continuous improvement strategies
4 Community and Partnership	☐ Develop the principle of 'agency' in our community to support a prevention agenda and improve the health and well-being of the population ☐ Embed a customer focussed approach and improve relationships through our stakeholder engagement strategies
5 Financial Strength: Sustainable Future	☐ Develop a transition plan that ensures financial sustainability and addresses liquidity issues pending the outcome of the Future Fit Programme
Board Assurance Framework (BAF) Risks	☐ If we do not deliver **safe care** then patients may suffer avoidable harm and poor clinical outcomes and experience ☐ If we do not work with our partners to reduce the number of patients on the **Delayed Transfer of Care** (DTOC) lists, and streamline our internal processes we will not improve our 'simple' discharges. ☐ Risk to **sustainability** of clinical services due to potential shortages of key clinical staff ☐ If we do not achieve safe and efficient **patient flow** and improve our processes and capacity and demand planning then we will fail the national quality and performance standards ☐ If we do not get good levels of **staff engagement** to get a culture of continuous improvement then staff morale and patient outcomes may not improve ☐ If we do not have a clear **clinical service vision** then we may not deliver the best services to patients ☐ If we are unable to resolve our (historic) shortfall in **liquidity** and the structural imbalance in the Trust's **Income & Expenditure** position then we will not be able to fulfil our financial duties and address the modernisation of our ageing estate and equipment

Care Quality Commission (CQC) Domains	☐ Safe
	☐ Effective
	☐ Caring
	☐ Responsive
	☐ Well led
☐ **Receive** ☐ **Review** ☒ **Note** ☐ **Approve**	**Recommendation** The Trust Board is asked to NOTE Audit Committee Annual Report.

Audit Committee Annual Report

2015/16

1. Introduction

The Audit Committee's chief function is to advise the Board on the adequacy and effectiveness of the Trust's systems of internal control and its arrangements for risk management, control and governance processes and securing economy, efficiency and effectiveness (value for money).

In order to discharge this function the Audit Committee has approved an Annual Report for the Board and Accountable Officer. This Report includes information provided by Internal Audit, External Audit and other Assurance Providers, including the Trust's Tier 2 Committees.

2. The Role and Operation of the Audit Committee

2.1 Membership of the Committee

The Audit Committee is the senior Board committee taking a wide responsibility for scrutinising the risks and controls which affect all aspects of the organisation's business. The Audit Committee met 5 times during 2015/16. It is chaired by a Non-Executive Director. The members of the Committee disclosed their interests, which included the following, in the Trust's register of interests:

▪ Mr Robin Hooper (Chair)	Director of Planning Group Limited
	Chief Executive of Eden District Council
	Director of Verity House Limited
	Trustee of Shrewsbury Draper Limited
	Director of Enterprise Prospects Limited
	Director of Hooper Burrowes Legal
	Director of Sports Booker Limited
	Director of Oak Street Property Limited
	Director of Hollyhead Estates Limited
	Director of Hollyhead Estates Wrenbury Limited
	Fellow of Royal Society for Arts & Manufacturing (RSA)
▪ Dr Simon Walford	Trustee, Wolverhampton Grammar School Ltd.
	Chairman, Board of University of Wolverhampton
	In receipt of an NHS Pension
▪ Mr Dennis Jones	None
▪ Mr Harmesh Darbhanga	None

Other Non-Executive directors are able to attend this meeting and key senior Trust personnel and Internal and External Audit are also in attendance. The Finance Director, and Director of Corporate Governance normally attend the Committee.

The Director of Corporate Governance provides support to the Chair and Committee members.

2.2 Meetings and Attendance

The Committee is required to meet at least three times a year. Six meetings took place during this period and were attended by members as shown overleaf:

	16 April 2015	07 May 2015*	04 Jun 2015	17 Sep 2015	10 Dec 2015	4 Feb 2016	TOTALS	
							No of meetings	%
Members								
Robin Hooper	✓	✓	x	✓	✓	✓	5/6	83
Simon Walford	✓	✓	✓	✓	✓	✓	6/6	100
Dennis Jones	✓	✓	✓	✓			4/4	100
Harmesh Darbhanga					✓	✓	2/2	100
TOTAL	**3/3**	**3/3**	**2/3**	**3/3**	**3/3**	**3/3**	**17/18**	**94%**
Other attendees								
Chief Exec					✓			
Dir Corporate Governance	✓	✓	✓	✓	✓	✓		
Finance Director	D	✓	✓	D	D	D		
Medical Director	x	x	x	x	x	x		
Head of Assurance	✓	✓	✓	✓	x	✓		
Other Directors / Very senior managers					Workfore Director Asst COO			
Internal Audit	✓	x	✓	✓	✓	✓		
External Audit	✓	x	✓	✓	✓	✓		
Counter Fraud	✓	x	✓	✓	x	x		

Key – ✓ (Present) / x (Absent) from meeting / D = Deputy attended

*The May 7th meeting was a special meeting held to review the annual accounts and the draft Annual Governance Statement.

2.3 Terms of Reference

The Terms of Reference were reviewed and adopted in September 2015. They were updated in line with the specimen terms of reference in the Audit Committee handbook. These were minor rewordings however, one amendment was made to include the Committee reviewing the effectiveness of the arrangements in place for staff to raise concerns (whistleblowing).

2.4 Reporting from the Committee

An outcome summary of the Audit Committee is formally reported to the public session of the Trust Board. (contained in the Information pack). In addition, the Chair of the Audit Committee summarises the key issues following each meeting in an update to the following Trust Board. Examples of issues brought to the attention of the Board during the year are shown below.

The Audit Committee:

- Discussed the numbers of patients who are deemed 'Fit-to-transfer' (FTT) and expressed concern about the significant impact this is having on patient safety, costs, and performance. The planned Internal Audit will investigate the link between FTT and patient harm with a focus on patients with dementia.

- Noted the Cash and Treasury Management Audit. The Committee discussed patient property and recognised that the loss of patient property is of continued concern. The Trust will work closely with the Local Counter Fraud Specialist to raise awareness of the revised Patient Property Policy with staff. The updated Policy makes it clear that failure to follow the policy could result in disciplinary action.

- Noted the limited assurance report on IT controls, and noted that although last year this core audit had received Substantial assurance, the scope had changed significantly. The Committee agreed that the high priority recommendations in relation to the Computer Rooms need to be actioned promptly to ensure that adequate cooling controls are implemented at both sites to protect assets and services. It was noted that urgent discussions are being held with the interim Estates Director to progress the issues raised through the capital planning process.

- The Committee was disappointed that SLAs are not signed by our 'customers' of the Payroll Shared Service in a timely way, and that this is both a historic and continuing issue and asked that measures be put in place to resolve this problem.

- Received a report from the LCFS on Consultant job planning and was pleased to note the progress with job plans, but recognised that the actual planning process needs more rigour with more involvement of the management teams to ensure plans reflected reality and operational needs. The recommendations will be added to the recommendation tracking system and the Workforce Committee will be asked to oversee implementation. The Medical Director will be invited to the Audit Committee to update on progress in six months' time.

- Noted the progress with annual declarations of interest with three-quarters of eligible staff having made a declaration. 124 members of staff have yet to return their declaration despite numerous reminders. Letters will be sent to Care Group managers, and the Committee asked that any individuals still outstanding are reported at Trust Board in June.

- Welcomed the new External Auditors from Ernst and Young and welcomed the reduction in fees achieved through the national procurement exercise.

- Reminded External Audit of the ongoing need for the Trust to continue to obtain continuing financial support from the Trust Development Authority to prevent cash problems.

- Noted the briefing paper provided, with a list of key questions for Audit Committees to consider. These cover a number of areas including workforce planning, board effectiveness and CQC standards. The Director of Corporate Governance will ask the appropriate Directors to consider the relevant questions to provide assurance to the Audit Committee.

- Were pleased to note the audit report on the Board Assurance Framework which is the fourth successive substantial assurance opinion, which recognises the embedded nature of risk management in the Trust.

- Discussed the Internal Audit report on Governance of Future Fit. This report provides moderate assurance and contains two high priority recommendations. The first of these related to the finding that expectations and intentions are not completely aligned, and this needs to be very tightly monitored. The second high priority recommendation related to defining affordability in relation to the proposed options. They felt there was no absolute position on this, and the Trust's commitment is substantial. The Trust needs to feed in affordability discussions with the TDA to include capital costs, ongoing revenue costs and efficiency assumptions. There is concern that in the meantime

- operational responsibility rests with SaTH, which will almost certainly result in difficult and controversial decisions to maintain safety.

- Thanked Dennis Jones for his sterling contribution to the Audit Committee, both as Chair and member over the last few years. Dennis stepped down as a Non-Executive Director in October.

- Considered the Limited Assurance opinion issued on the business continuity report by Deloitte, which contained 2 High Priority and 4 Medium Priority recommendations. These centred around the lack of an overarching business continuity plan, disaster recovery plan and business impact analysis. There was also concern around the apparent lack of a business continuity framework across the Trust and have asked Internal Audit to include this in the 2016/17 Audit Plan.

- Following delegated authority from the January Trust Board, the Audit Committee approved the Terms of Reference for the Appointment panel and plan to have the process completed in April, subject to Procurement processes

2.5 Reporting to the Committee

In line with the terms of reference there are a number of standing items on each Committee agenda.

The following were presented at each meeting with the exception of the meeting in May
- Audit Recommendation Tracking
- Internal Audit Update
- Counter Fraud update

The following reports were also presented to the Committee:
- External Audit Update (Apr, Sept and Dec 15 and Feb16)
- Board Assurance Framework (Sept and Dec 15)
- Annual Accounts (May and Jun 15)
- Annual Governance Statement (Apr, May, Jun 15 and Feb 16)
- Audit Committee Annual Report (Apr 15)
- Statement of compliance against Internal Audit Standards (Apr 15)
- Standards of Business Conduct – declarations of interest (Sept 14 and Feb 16)
- Auditor Panels Guidance - Terms of Reference (Dec 15, Feb 16)
- Risk Management Strategy (Sept 15)
- CQC Action Plan Assurance (Dec 15)
- Supporting staff to raise concerns (Dec 15)

3. Audit Committee's opinion

Members of the Board should recognise that assurance given can never be absolute, but the Board is still responsible for ensuring there are robust systems in place. The highest level of assurance that can be provided to the Board is a reasonable assurance that there are no major weaknesses in the Trust's risk management, control and governance processes.

The opinion of the Committee is that with the exception of the internal control issues set out in section 4 below, the Trust has a generally sound system of internal control that supports the achievement of its policies, aims and objectives and those control issues have been or are being addressed.

4. Information supporting opinion

Summarised below is the key information/sources of assurance that the Committee has relied upon when formulating their opinion.

4.1 Internal Audit

4.1.1 Head of Internal Audit's Opinion

The Head of Internal Audit's Opinion is based on the work undertaken in 2015/16. During the year, Internal Audit reported on eight core audits and two performance audits. Internal Audit issued substantial assurance ratings for five of the core audits, moderate assurance ratings for two core audits and a limited assurance rating for one core audit. Moderate assurance ratings relate to CQC action plan follow up; and budgetary control. The limited assurance rating relates to the audit of Information Technology Disaster Recovery and Business Continuity Planning where two high priority recommendations were made.

The Head of Internal Audit's Opinion is based on the work undertaken in 2015/16. The overall opinion is that: Moderate assurance can be given as there is a generally sound system of internal control, designed to meet the organisation's objectives, but the level of non-compliance in certain areas puts some system objectives at risk. There is a basically sound system of internal control for other system objectives. The weaknesses identified which put some system objectives at risk relate to CQC, Budgetary Control and IT Disaster Recovery and Business Continuity Planning.

Significant assurance has been given in relation to the Board Assurance Framework and risk management arrangements at the Trust.

4.1.2 Internal Audit Reports and recommendations

The Internal Audit Operational Plan for 2015/16 was approved by the Audit Committee in June 2015. The Trust received the following opinions during 2015/16:

	Full Assurance	Substantial Assurance	Moderate Assurance	Limited Assurance	No Assurance
Core Audits	0	5	2	1	0
Performance reviews	0	0	2	0	0

A summary of topics is attached at Appendix 1.

Whilst positive opinions were issued in respect of the majority of audits for the period, limited opinions were provided in one core audit relating to the audit of Information Technology Disaster Recovery and Business Continuity Planning where two high priority recommendations were made. Actions to rectify these weaknesses are being implemented.

- **Information Technology Disaster Recovery and Business Continuity Planning:** One high priority recommendation was that the Trust should document a plan to cover the business continuity policy and strategy, covering all areas of the trust, and with a mechanism for structured testing. The second high priority recommendation was that the adequacy of the existing IT recovery arrangements should be documented for each service.

Formal actions plans have been agreed to address all the control weaknesses in these areas. There have been no common weaknesses identified through Internal Audit reviews.

There have been 66 recommendations made by Internal Audit. 61 of these recommendations were completely accepted by management and, two medium and three low priority recommendations were partially accepted.

	High Priority	Medium Priority	Low Priority
Core Audits	3	18	19
Performance reviews	4	16	6

The Trust has a system of recommendation tracking to follow-up all internal and external audit recommendations. All outstanding recommendations are discussed with Executive Directors prior to presentation to the Audit Committee to ensure full ownership of recommendation implementation across the Trust. Only one recommendation was overdue at year end.

4.1.3   Internal Audit Performance
Deloitte are the Trust's Internal Auditors and have provided progress reports at each meeting which included:
- Draft and final reports issued to ensure delivery to timescale
- Overall assurance by report

All audits were completed and reported in line with the plan apart from the CQC action plan follow up report where the delay was caused by internal trust issues.

4.2 External Audit
The refreshed Audit Plan was presented to the Audit Committee in April 2015. The areas of high audit risk identified were the valuation of tangible assets; income recognition and associated fraud risk; and management override of controls. Two areas of high risk relating to the VFM opinion were identified: financial resilience and securing economy, efficiency and effectiveness.

4.2.1   External Audit Performance Indicators
The main performance indicator for external audit is performance against the Audit Plan. All issues are met in line with the Plan. In addition the Audit Commission submits a satisfaction survey to clients to enable them to comment on performance.

4.3 Audit Performance
This Committee considers that there are no issues with Internal and External Audit that affect their ability to support this Committee in discharging its duties.

The Committee has met in private (management excluded) with auditors to enable any other issues of concern to be raised by either party but no such issues have been raised in addition to the matters discussed in open meetings.

4.4 Other Assurance Providers

4.4.1   Other Committees
The Audit Committee also receives assurance from the Risk Committee. The Risk Committee is chaired by the Chief Executive. It met quarterly to review and update the Board Assurance Framework. It also has an overview of the most significant risks on the Trust risk registers to ensure there are robust controls and mitigation actions in place.

4.4.2　　Local Counter Fraud Service (LCFS)

In line with the Secretary of State's Directions to NHS Bodies on Counter Fraud Measures, the LCFS has produced a written report on the activities undertaken during 2015/16. This includes the activities agreed with the LCFS and Finance Director at the beginning of 2015/16. It covers the seven generic areas of counter fraud activity set out in the NHS Counter Fraud and Corruption Manual. It also includes an analysis of the Trust's compliance with the Secretary of State's Directions, which has resulted in a green rating across the standards. One sub-standard was given a red rating due to the high number of referrals about estates practices.

 The key activities carried out were:

- The on-going monitoring of fundamental key anti-fraud controls through the Continuous Controls Cycles has continued.

- An in-depth fraud risk assessment of the Estates department has been completed.

- A proactive exercise to analyse the Trust's compliance with the Additional Clinical Activity Policy has been completed

- Worked with the Trust to further enhance the process around declarations of interest

- Reviewed a number of policies and identified some areas where best practice guidance could enable the policies to be enhanced to reflect counter fraud arrangements.

4.4.3　　Management

The Audit Committee also received assurance through the Trust's audit recommendation tracking system. All internal and external audit recommendations are followed-up with the lead manager through the Director of Corporate Governance before each Audit Committee meeting to ensure progress against implementation is monitored. All responses and non-responses are shared with the relevant Executive Director so they can ensure that appropriate management action is taken. The Audit Committee receives a full report on the recommendations and progress to implement the identified improvements, with particular attention paid to any outstanding actions. The Trust has implemented a web-based recommendation tracking system. A heat map highlights areas where implementation of recommendations is delayed.

This approach has seen the sustained improvement in the timely implementation of recommendations, with no recommendations overdue at year end.

The Executive Directors have agreed a robust approach to recommendation tracking which includes high priority audit recommendations being reviewed by the Executive Directors.

4.5 Assurance Framework

The Assurance Framework was reported to the Audit Committee twice during the year. The Committee's view is that the Framework identifies the key risks, controls and sources of assurance. Each Director is responsible for ensuring the accuracy and completeness of the Framework in relation to Trust objectives.

In line with year-end reporting requirements, the Audit Committee reviewed the final version of the 2014/15 assurance framework at its April 2016 meeting.

Internal Audit reviewed the Assurance Framework and related processes and gave an opinion of substantial assurance.

The Audit Committee has relied on the Assurance Framework to provide assurance that systems, policies and people are in place to drive the delivery of objectives by focusing on minimising risk. The

Audit Committee believes that the Assurance Framework provides a comprehensive method for the effective and focused management of the principal risks to meeting objectives and provides a structure for evidence to support the Annual Governance Statement.

4.6 Corporate Risk Register
The Corporate Risk Register and the associated controls and assurances have been overseen by the Risk Committee throughout the year.

5. Conclusions
Based on information presented and discussed at the Audit Committee meetings during the year we have concluded the following;

5.1 Risk Management
The Audit Committee concludes that the Trust's system of risk identification, recording, reporting arrangements are adequate. The Trust has a comprehensive organisation-wide risk register that records clinical risk, organisational risks and financial risks. The risk register provides evidence that the Trust is using a common methodology to evaluate risk for both strategic and operational risks. It also maps to the Integrated Business Plan and Performance Report.

Risk assessments are carried out on an ongoing basis within the Centres, and whenever a process change is about to occur, or a new hazard is identified. Quality Impact Assessments are carried out for all cost improvement schemes. Risk Management processes link the highest risk issues to the strategic objectives, and the Care Quality Commission's fundamental standards.

5.2 Assurance Framework
The Audit Committee have reviewed the Assurance Framework throughout the year and consider it fit for purpose. It reflects the key risks facing the organisation and all assurances over the controls mitigating the risks have been considered and any significant gaps in either the assurances or in controls have been addressed.

5.3 Governance Arrangements
The Audit Committee believe that the Trust's governance arrangements are robust.   There are a number of different components of governance, in particular corporate governance, clinical governance, research governance, information governance and financial governance and the Audit Committee scrutinises the processes to ensure they are effective.

The Quality and Safety Committee has key responsibilities in relation to providing assurance to the Board on clinical quality and safety; and driving an improvement culture to promote excellence in patient care. To facilitate close working between the committees, one member of the Audit Committee is also a member of the Quality and Safety Committee.

5.4 Annual Governance Statement
The draft Annual Governance Statement was considered by the Audit Committee at its meeting in April 2016 and its contents were consistent with the conclusions above. It considers that the Assurance Framework sets out the Trust's objectives and provides a clear template to identify any risks to achieving those objectives and a clear framework against which to measure progress.

It also recognises that there is a Risk Management Strategy in place, endorsed by the Trust Board. It clearly defines the risk management structures, accountabilities and responsibilities throughout the Trust. It also incorporates consideration of the Trust's stakeholders.

There are six significant issues highlighted in the Annual Governance Statement.

6. Recommendations

Given the issues identified in Section 4 and our conclusions in Section 5, we recommend that the Board acknowledges that:

- With the exception of the internal control issues described in this document, the Trust has a generally sound system of internal control that supports the achievement of its policies, aims and objectives and those control issues have been or are being addressed

- It has a system in place that identifies any actions that need to be taken to remedy either gaps in control/assurance but this needs to be constantly reviewed

- Continue the processes for recommendation tracking to ensure timely completion of action plans following audit.

Robin Hooper
Audit Committee Chairman

Appendix 1: Summary of Audit Reviews 2015/16

Ref	title	assurance	date to Audit Committee
IA15/16CR01	Board Assurance Framework	Substantial	Sep-15
IA15/16CR02	CQC	Moderate	May 16
IA15/16CR03	Cash management	Substantial	Apr-16
IA15/16CR04	Income and Debtors	Substantial	Apr-16
IA15/16CR05	Payments and Creditors	Substantial	Apr-16
IA15/16CR06	Budgetary Control	Moderate	Apr-16
IA15/16CR07	Payroll	Substantial	Apr-16
IA15/16CR08	IT Controls	Limited	Feb-16
IA15/16PR001	Fit to transfer - DTOC	Moderate	Dec-15
IA15/16PR002	Governance: Future Fit Stage1	Moderate	Sep-15