

Reporting to:	Trust Board, 30 May 2017
Title	Audit Committee Annual Report
Sponsoring Director	Director of Corporate Governance
Author(s)	Head of Assurance
Previously considered by	Audit Committee
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 2016/17.
Strategic Priorities	
1. Quality and Safety	<input type="checkbox"/> Reduce harm, deliver best clinical outcomes and improve patient experience. <input type="checkbox"/> Address the existing capacity shortfall and process issues to consistently deliver national healthcare standards <input type="checkbox"/> Develop a clinical strategy that ensures the safety and short term sustainability of our clinical services pending the outcome of the Future Fit Programme <input type="checkbox"/> To undertake a review of all current services at specialty level to inform future service and business decisions <input type="checkbox"/> 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	<input type="checkbox"/> Through our People Strategy develop, support and engage with our workforce to make our organisation a great place to work
3. Innovation	<input type="checkbox"/> Support service transformation and increased productivity through technology and continuous improvement strategies
4. Community and Partnership	<input type="checkbox"/> Develop the principle of 'agency' in our community to support a prevention agenda and improve the health and well-being of the population <input type="checkbox"/> Embed a customer focussed approach and improve relationships through our stakeholder engagement strategies
5. Financial Strength: Sustainable Future	<input type="checkbox"/> 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	<input type="checkbox"/> If we do not deliver safe care then patients may suffer avoidable harm and poor clinical outcomes and experience <input type="checkbox"/> 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. <input type="checkbox"/> Risk to sustainability of clinical services due to potential shortages of key clinical staff <input type="checkbox"/> 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 <input type="checkbox"/> 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 <input type="checkbox"/> If we do not have a clear clinical service vision then we may not deliver the best services to patients <input type="checkbox"/> 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	<input type="checkbox"/> Safe <input type="checkbox"/> Effective <input type="checkbox"/> Caring <input type="checkbox"/> Responsive <input checked="" type="checkbox"/> Well led
<input type="checkbox"/> Receive <input type="checkbox"/> Review <input checked="" type="checkbox"/> Note <input type="checkbox"/> Approve	Recommendation The Trust Board is asked to NOTE the Audit Committee Annual Report



The Shrewsbury and
Telford Hospital
NHS Trust

Audit Committee Annual Report

2016/17



Proud To **Care**
Make It **Happen**
We Value **Respect**
Together We **Achieve**

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 6 times during 2016/17. 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 Harmesh Darbhanga
(Chair from Oct 16) | None |
| ▪ Mr Clive Deadman | Director of Ombudsman Services Ltd
Director of Metropolitan Housing Trust
Chairman of Energy Innovation Centre Investment Forum
Council Member of Institute of Asset Management
Director and Shareholder of 1905 Investments Ltd
Director of MML Ltd
Director of CPD Ltd
Lecturer at Cranfield University
Fellow of Institute of Asset Management |
| ▪ Dr Chris Weiner (from Feb 17) | Clinical Director at Wiltshire Health & Care |
| ▪ Mr Robin Hooper (Chair and member until Sept 16) | 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) |

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:

	14 April 2016	12 May 2016*	02 Jun 2016	15 Sep 2016	16 Dec 2016	4 Feb 2017	TOTALS	
							No of meetings	%
Members								
Harmesh Darbhanga (Chair from 16/12/16)	✓	✓	✓	✓	✓	✓	6/6	100
Clive Deadman	✓	✓	✓	✓	✓	✓	6/6	100
Chris Weiner (from 4/2/17)						✓	1/1	100
Robin Hooper (Chair/member until 15/9/16)	✓	✓	✓	✓			4/4	100
TOTAL	3/3	3/3	3/3	3/3	2/2	3/3	17/17	100%
Other attendees								
Chief Exec			✓					
Dir Corporate Governance	✓	✓	✓	✓	✓	✓		
Finance Director	✓	✓	✓	✓	D	✓		
Head of Assurance	✓	✓	✓	✓	✓	✓		
Internal Audit	✓	x	✓	✓	✓	✓		
External Audit	✓	x	✓	✓	✓	✓		
Counter Fraud	✓	x	x	x	x	✓		

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

*The May 12th 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 2016. The main change was to include the Committee having delegated responsibility for constituting the Auditor Panel for selection of External Auditors.

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, with the Committee dates in brackets:

The Audit Committee:

- **Counter Fraud Annual Report 2015/16 (14th April 2016)**

The Committee was pleased to note that the Trust continued to attain full compliance with NHS Protect Standards (Strategic Governance, Inform and Involve, Prevent & Deter, Hold to Account) and was awarded Green – Standard Met. It was noted that many other Trusts do not achieve the standards. It was noted that there was one red area in the Prevent & Deter standard relating to weaknesses in the Estates Department in procurement processes, which have been addressed through workshops to ensure staff are clear on correct processes.

- **Annual Accounts 15/16 (2nd June 2016)**

There was extensive discussion around the difference in opinion between the Trust and External Audit on the treatment of depreciation. External Audit explained that they considered that as depreciation was an estimation it should be applied in line with IAS08, ie prospectively. They therefore classified this as an uncorrected error and wished to bring it to the attention of Audit Committee. They confirmed it was not a material difference and would not affect the unqualified opinion on the accounts if it was not corrected. The Finance Director explained that, whilst accepting depreciation was an estimation, the Trust has treated depreciation in accordance with IAS 16 – Property, Plant and Equipment whereby equipment is depreciated by adopting a “straight line basis” and using predetermined asset lives as established by the NHSE. The exercise of reassessing asset lives also confirmed that the level of internally generated resources available to the Trust, would for the foreseeable future, be insufficient to support the replacement of equipment more quickly and as such the actual usage of asset lives provided a more accurate description of the “pattern of consumption” of these assets than used previously. IAS 16 requires organisations to review on an annual basis the asset lives. Given the findings of the review it was decided to change the asset lives to one based upon actual usage. This ensures that the carrying amount on the books is correctly stated. This approach was notified to the external auditors, and the methodology was audited in January as part of the pre – end of year review.

It was noted that the positions could not be reconciled and was an argument over the technical treatment of a change. It was further noted that previous differences in treatments had occurred between the Trust and previous External Auditors (KPMG) so this was not a novel situation. It was further noted that the TDA had been contacted and they confirmed over recent years a number of Trusts have found themselves in this position. Their Financial team have (as ours have) declared the one off benefit in year, as we have, and had a similar debate with their auditors which also saw them submit their annual accounts statement based upon their interpretation of the position and not correcting the position as suggested by External Audit.

In light of this the Committee agreed that it would reflect the difference in the management representation Letter and recommend that the Board adopt the accounts as stated

- **Value For Money (2nd June 2016)**

The Committee considered the qualified ‘except for’ opinion on Value for Money (VFM) to be a substantive issue. It was noted that against other external metrics the Trust is performing in the upper quartile and the Opinion seemed perverse and unfair in this context. The Committee recognised the framework that External Audit had to operate within but felt this was a framework constructed at a time when the NHS was in surplus and did not make sense in a national position where 80% of Trusts were in deficit and therefore breaking their statutory duty, which was a key, albeit unfair, condition applied to arriving at the VFM opinion, which did not reflect the efforts and hard work of NHS workforce both nationally and locally

The Committee discussed the many contributory factors to the Trust’s financial position included a gap between contracted and actual activity levels, with associated impact on

staffing levels and costs, along with an equally serious impact on achieving targets and pursuing clinical excellence and expressed its disappointment that External Audit had been unable to reflect this in their findings.

It was noted that the independent evidence for the Trust's very good VFM position included the Award for the 4th year from CHKS as being in the top 40 of the most efficient and effective hospital. Furthermore the Trust's Reference costs were low (95 compared to an NHS average of 100) and that the Trust delivered and exceeded all the targets and measures that it committed to at the beginning of the year. So the technical evaluation by External Audit based on rigid criteria was a gross misinterpretation and reflected an inappropriate and unjust framework.

The Audit Committee asked for this view to be submitted nationally by the External Auditors and resolved to have their position recorded in the strongest terms in both the minutes of the Audit Committee and the Board meeting that followed to receive and adopt the Financial statements.

- **Board Assurance Framework (15th Sept 2016)**

The Committee reviewed the Board Assurance Framework and were pleased to note the new arrangements whereby the appropriate tier 2 Committee (Workforce, Quality, Sustainability) reviewed the BAF risks at each meeting. It was also noted that the key risks to the Trust's Strategic objective were all included on one document (e.g. delayed transfers of care, partnership working, CIP and cash restraints, staffing etc) along with up to date controls, sources of assurance and gaps. Internal Audit also confirmed that the Trust's BAF had received a further "Substantial assurance" opinion.

- **Annual Audit Letter (15th Sept 2016)**

The Committee discussed External Audit's use of the word "unlawful" within their Annual Audit Letter. It was confirmed that this referred to the delivery of a deficit control total, which, as in previous years, would be reported to the Secretary of State. It was noted that the Trust's previous External Auditors described the position as a "breach of statutory regulations" which more accurately reflected that the breach had been agreed with the TDA and that there were plans in place to work to a sustainable position and 85% of Trusts were in this position. It was agreed the Finance Director would consider providing a Board Development Session to discuss this in more detail.

- **In year changes to the Internal Audit Plan (15th Sept 2016)**

The Committee approved a change to the Internal Audit Plan to ensure the budget was not compromised. It was agreed that the planned audit of the Outline Business Case and Outpatients as they would be scrutinised independently through external review of the OBC. Prior to submission and on Outpatients work that the Transforming Care Programme will be picking up as Value Stream 4.

Preliminary work was carried out on the Budgetary Control audit; however, it was suggested that there be an extension to scope. The Committee discussed this approach and agreed with the auditors that although the controls in finance are good, the operational practice in the Care Groups and wider Trust result in a failure of the controls. The auditors proposed reviewing practice outside of finance to better understand the position. The Audit Committee supported the extension of scope to this audit.

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 (Jun, Sept and Dec 16 and Feb17)
- Board Assurance Framework (Apr, Sept and Dec 16)
- Annual Accounts (May and Jun 16)
- Annual Governance Statement (Apr, May, Jun 16)
- Audit Committee Annual Report (Apr 16)
- Letter of Going Concern (Jun 16)
- Security Annual Report (Jun 16)
- Update on External Audit Procurement Process (Jun 16)
- Internal Audit Contract (Feb 17)
- Risk Management Process and Risk Registers (Feb 17)

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 2016/17. The overall opinion for the year ended 31 March 2017 is that moderate assurance can be give 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 Income & Debtors, Procurement (Contracted Expenditure & Stores), Policy and Procedure Compliance in Maternity Services (Non-core review) and Computer based IT Controls.

Substantial 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 2016/17 was approved by the Audit Committee in April 2016. The Trust received the following opinions during 2016/17

	Full Assurance	Substantial Assurance	Moderate Assurance	Limited Assurance	No Assurance
Core Audits	0	4	3	0	0
Performance reviews	0	0	2	0	0

A summary of topics is attached at Appendix 1.

	High Priority	Medium Priority	Low Priority
Core Audits	6	27	15
Performance reviews	1	7	4

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

4.2 External Audit

The refreshed Audit Plan was presented to the Audit Committee in February 2016. The areas of high audit risk identified were the risk of fraud in income recognition; revaluation of estate; management override of controls; achieving breakeven; and employee costs. Three areas of high risk relating to the VFM opinion were identified: informed decision making; sustainable resource deployment; and working with partners and other third parties.

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 Tier 2 Committees. The Tier 2 Committees, Workforce, Sustainability, and Quality, are chaired by Non-Executive Directors and review and update the relevant Board Assurance Framework risks at each meeting.

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 2016/17. This includes the activities agreed with the LCFS and Finance Director at the beginning of 2016/17. 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.

The key activities carried out were:

- A follow-up review of Consultant Job Planning took place. As part of this work discussions took place with the Trust on the format and contents of Consultant Dashboards and KPIs.
- A proactive exercise examining the anti-fraud controls within the Estates Department has been completed.
- The on-going monitoring of fundamental key anti-fraud controls through the Continuous Controls Cycles has continued. Areas covered were Conflicts of Interest; Recruitment; Overtime Claims; Agency Timesheets; and Patients' Property.
- 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 one overdue action at year-end due to a delay in reassigning an action. There have been no common weaknesses identified through Internal Audit reviews.

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 three times 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 2016/17 assurance framework at its April 2017 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 Trust Board 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 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 Committee.

5.4 Annual Governance Statement

The draft Annual Governance Statement was considered by the Audit Committee at its meeting in April 2017 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.

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.

Harmesh Darbhanga
Audit Committee Chairman

Appendix 1: Summary of Audit Reviews 2016/17

Ref	Title	Assurance	Date to Audit Committee
IA16/17CR001	Board Assurance Framework	Substantial	Apr-17
IA16/17CR002	Procurement	Moderate	Apr-17
IA16/17CR003	Cash & Treasury management	Substantial	Feb-17
IA16/17CR004	Debtors and Income	Moderate	Feb-17
IA16/17CR005	Payments and Creditors	Substantial	Feb-17
IA16/17CR007	Payroll	Substantial	Feb-17
IA16/17CR008	Computer based IT controls	Moderate	May 17
IA16/17PR004	IG toolkit	Moderate	May 17
IA16/17PR005	Policies & procedures in maternity	Moderate	Apr-17