

TRUST BOARD

Date of Meeting: 09/10/2012	Agenda Item No: 11.2	Enclosure: 12
Intended Outcome:		
For noting ✓	For information	For decision
Title of Report: Audit Committee Annual Report 2011/12		
Aims: To provide the Trust Board with the detail of the work of the Audit Committee in 2011/12		
Executive Summary: <ul style="list-style-type: none"> • The Audit Committee met 9 times during 2011/12. There was an additional meeting in June to review the annual accounts and an additional meeting in January 2012 to review assurance over the acquisition process. • All Audit Committee meetings were attended by both Internal and External Audit representatives, the Director of Finance or Deputy Director of Finance and by other Trust staff as appropriate. • Audit Committee papers were circulated to all members. • The Audit Committee Chairman received final copies of all Internal Audit reports. • Audit Committee minutes are provided to the Trust Board. • During the 2011/12 period, in accordance with best practice, private meetings have been held between both Internal and External Audit representatives and Audit Committee members without Trust staff being present. • Three members of the Audit Committee and five attendees of the committee participated in the Audit Commission web based self-assessment system. The Audit Commission report on this was produced and considered by the Audit Committee at its meeting in November 2011 • The Audit Committee continues to review and gain assurance from Internal Audit Reports, and ask Trust members to attend the committee when there are areas of concern. 		
Overview of key areas for consideration or noting:		
The principal current areas of focus for the Committee are:		
<ul style="list-style-type: none"> • the acquisition process and associated issues arising from interim management; • the adequacy of staffing of the Governance function and the risk of other staff losses; • financial management and in particular the cost improvement plan; • timely clearance of audit recommendations and, in particular, those arising from the clinical governance review. 		
Specific implications and links to the Trust's Strategic Aims:		
Ensure we provide high quality, safe and effective care for all our patients including meeting essential standards of safety and quality as set out by the CQC		✓
Develop a viable integrated clinical strategy for secondary care services which is sustainable and affordable		

Develop a new healthcare facility in West Cumbria that is fit for the 21st century	
Achieve sustainable financial balance through the delivery of the Trust's internal Cost Improvement Programme, securing a viable contract income from our GP commissioners and contributing to the system wide cost reductions	
To develop and implement a successful merger or acquisition plan that enables the Trust to become part of an existing NHS Foundation Trust	
Recommendations: Trust Board note the Audit Committee Annual Report 2011/12	
Prepared by: Mr Mark Evens Audit Committee Chairman	Presented by: Mr Mark Evens Audit Committee Chairman

<p style="text-align: center;">TRUST BOARD AUDIT COMMITTEE ANNUAL REPORT 2011/12 OCTOBER 2012</p>
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1. INTRODUCTION

The purpose of this report is to set out for the Trust Board how the Audit Committee has helped to maintain and improve organisational governance processes and has met its Terms of Reference during the course of 2011/12. The terms of reference for the Committee for the financial year 2011/12 and accordingly the content of this Report follow the recommendations of the *NHS Audit Committee Handbook 2011*, published by the Department of Health and HFMA.

While this report principally covers the activities of the Committee in the financial year 2011/12, it also includes matters relevant to that year which were discussed in later Committee meetings and updates regarding relevant current developments. In accordance with best practice, this report also draws attention to specific exceptional matters that have arisen during the year and which fall within the Committee's scope.

2. MEMBERSHIP

The Committee comprised the following members:

- Mark Evens (Chair of the Audit Committee)
- Michael Bonner
- Judith Cooke
- Philip Day

Attendance records are attached at appendix 1.

3. COMMITTEE MEETINGS

The Committee met on nine occasions during the financial year– in April, May, twice in June, July, September and November 2011, and January and February 2012. The additional meeting in June was required to review the annual accounts. The additional meeting in January was to review assurance over the acquisition process. All Audit Committee meetings were attended by both Internal and External Audit representatives, by the Director of Finance or the Deputy Director of Finance, and by other trust staff, as appropriate. In addition papers were circulated and commented upon. All Internal Audit reports were circulated to appropriate Trust Senior Management and the Audit Committee Chair. All such reports were summarised, reported and discussed at Audit Committee meetings.

All Committee minutes were provided to the Trust Board.

During the period, in accordance with best practice, private meetings were held between both Internal and External audit representatives and the Audit Committee members without Trust staff being present.

4. PRINCIPAL REVIEW AREAS

These areas are divided into six sections reflecting the key duties of the Committee as set out in its terms of reference.

4.1 Governance, risk management and internal control

- The Committee reviewed the adequacy of all risk and control related disclosure statements, in particular the Annual Governance Statement (AGS), together with the Head of Internal Audit statement and external audit opinion, prior to endorsement by the Board.
- The Committee reviewed the Assurance Framework and determined that the Framework used during the year was fit for purpose. The Framework is in line with Department of Health expectations and has been reviewed by internal audit and external audit to give additional assurance that this opinion is well founded. With the Committee's encouragement, the Framework has been fully integrated with the Trust's risk management processes and strategic risks are reviewed quarterly by the Trust Board.
- The Committee has reviewed the completeness of the risk management system and considers the systems to be adequate.
- The AGS highlighted strategic risks in four areas: training, financial sustainability, the new West Cumberland Hospital development and the acquisition of the trust.

4.2 Internal audit

Internal Audit services (and supporting Local Counter-Fraud services) are provided under a Service Level Agreement to the Trust by Cumbria Internal Audit and Counter Fraud Consortium.

- The Committee has reviewed and approved the Internal Audit strategy, and was involved in the development of the risk based 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
- The Committee has considered the major findings of internal audit work (and management's response). In previous years, the Committee has considered the number of outstanding audit recommendations to be high. In response, management put in place a programme to review and address the audit recommendations and to ensure that future recommendations are appropriately considered as regards relevance, priority and timeliness of closure. While the quality of progress tracking improved significantly during the year, the pace of implementing recommendations was still slow. During the year, internal audit and management have worked together to ensure that recommendations are appropriate and are implemented within agreed timescales. After the year end there has been considerable disruption in the responsibilities for governance and, as a consequence, some of the momentum developed during the year in tracking and clearing items has been lost.
- The Committee considered that the Head of Internal Audit Report and the AGS properly reflected the findings of internal audit during the year.

- The incidence of fraud at the Trust is relatively low and no significant frauds were reported to the Committee. The programme of counter-fraud awareness continues.

4.3 External Audit

External Audit is carried out by the Audit Commission.

- The Committee reviewed and agreed external audit's annual plan and reviewed and commented on reports prepared by external audit.
- The Committee received briefings from external audit at each meeting which assisted in staying abreast of current developments.
- An Annual Governance Letter was received from external audit, containing conclusions from the annual audit and recommendations for improvements. These recommendations were accepted by the Committee.

4.4 Other assurance functions

- The Committee maintains strong links with the Governance Committee, through the cross-membership of two non-executive directors, including the Chair of the Governance Committee.
- The Committee has considered other sources of assurance in areas of importance. In its two previous annual reports, the Committee identified that further assurance would be beneficial in the considering the operation of Clinical Audit. This matter was included in the review of clinical governance referred to above and a number of recommendations were made to strengthen the function. The new function has now been operating for some months and it is proposed to review the assurance derived in 2012/13.

4.5 Management

- The Committee has challenged the assurance process when appropriate and has called managers to account when considered necessary.
- The Committee has also identified where it would be beneficial to request and review reports and to receive positive assurances from directors and managers.

4.6 Financial reporting

- The Committee reviewed the annual financial statements before submission to the Board and recommended that they be approved.
- The Finance Committee provides oversight of the financial affairs of the Trust. Nevertheless, the Trust continues to face a number of significant challenges. These matters are dealt with more fully in a separate section below.

5. COMMITTEE SELF ASSESSMENT

The Audit Commission made available its web-based self-assessment system and three non-executive members and five attendees of the Committee participated in the survey. The Audit Commission produced a report based on this and the detailed results of this were considered by the Committee at its meeting in November 2011. A number of areas for the Committee to consider in 2011/12 were identified, including:

Financial

- Financial Stability & Viability

- Systems and processes for delivery of financial targets
- Delivery of CIP
- Budgetary Control & Financial Reporting
- Agreement of a financially viable clinical strategy

Governance

- Clinical assurance
- Implementation of clinical governance review plan
- Integration of clinical governance
- Timely clearing of audit recommendations and holding officers to account for implementing recommendations
- Continuing development of the assurance framework and risk management.

Merger/acquisition

- Risk management of the process.

6. MAIN ISSUES

The main areas of concern considered by the Audit Committee in previous years' reports (in italics), updated for developments in the current period, are set out below.

- *The proposed acquisition of the Trust*
The Trust found it necessary to seek an acquiring Foundation Trust, as it was considered that this is the only route available to achieve FT status within the stipulated timeframe. This was driven by the Trust's financial position as discussed below. There are significant risks attached to the acquisition route. During 2011/12, the Committee sought assurance that these risks were identified, documented and managed appropriately. The risks have been documented in the Assurance Framework. In January 2012, the Committee held a special meeting specifically to review assurance around the acquisition process leading to the selection of a preferred bidder at a Board Meeting January 31st. At that Board Meeting, NHFT were selected as the preferred bidder. The acquisition is planned to complete by March 31 2013. In the meantime (with effect from September 10th 2012) Interim Management has been put in place, whereby the Trust's Accountable Officer is a secondee from NHFT. Arrangements have been put in place to ensure that conflicts of interest are avoided and that Competition and Co-operation Panel requirements are met. During the remainder of 2012/13, the Committee will need to be assured that these arrangements are working effectively.
- *The financial standing of the Trust and the need for a robust recovery plan*
The Trust continued to struggle to deliver sufficient cost savings to close the gap between income and expenditure. It was identified that the Cost Improvement Programme was at significant risk and that additional strategic support would be required. This support was made available, as supplementary income, by the SHA. A similar situation faces the Trust in the current financial year, with required savings not being matched by agreed initiatives. Additional support from the SHA has been arranged to cover the expected CIP shortfall, nevertheless the Committee's concern continues: in particular delivering the required CIP may be more difficult in the context of other changes associated with the acquisition.

- *Assurance over clinical areas and the operations of other assurance functions, including clinical audit*

Last year an internal audit review was carried out, which concluded that “Overall there is Limited Assurance that Clinical Audit is embedded within the Governance system or that there is clear evidence of follow up and implementation of recommendations across the Trust”. A number of recommendations were made which resulted, inter alia, in the re-establishment of the clinical audit function. The Committee plans to review progress in 2012/13.

- *The establishment of a structured process under which progress against all recommendations in both Internal and External Audit reports is monitored, and delays in progress challenged.*

Progress was made in this area, particularly in the quality of reporting. Where actions are not being completed the Committee requested updates from individual management leads as to why actions are off target. Despite this increased focus, the clearance of audit recommendations is still unsatisfactory. In addition, since the end of the financial year, the acting Director of Governance went on maternity leave and her temporary replacement left on secondment. Governance is currently the responsibility of the acting Director of Nursing. This has resulted in a shortage of resources to monitor the clearance of audit recommendations.

- *The updating of the Trust’s Fixed Asset Register, including the physical verification of assets.*

This matter continues to provide challenges for the Trust, given the nature and mobility of some assets. In addition an audit of medical devices gave particular cause for concern and the need for a rapid action plan, which is being monitored by the Governance Committee as well as this Committee.

- *Compliance with International Financial Reporting Standards.*

The Trust’s PFI continues has been a source of difficulty in achieving full compliance with IFRS. The complexity of the calculations is challenging for both the Trust and its external auditors. The 2010/11 accounts process was significantly disrupted by the late resolution of the appropriate accounting for PFI lifecycle costs. During 2011/12, considerable progress was made in obtaining lifecycle cost data to support the calculations..

- *The improvement process required to deliver a smooth year end process.*

The Trust still struggles to provide a smooth year-end process and this was once again commented on by the External Auditors. Much of the problem this year was caused by the non-availability of key staff.

As noted above, there has been some disruption and staffing shortfall in the Governance function. As the acquisition proceeds, there is a risk of continuing loss of key staff, not just in Governance. The Interim Management arrangements should enable these to be addressed, but the Committee will keep this matter under review..

7. FORMAL CONCLUSIONS

A key requirement of the operation of the Audit Committee is to assess and confirm formally that risk and assurance systems are in place and adequate.

The Audit Committee confirms that:

- the Annual Governance Statement for 2011/12 is consistent with the opinion of the Audit Committee on the organisation's systems of internal control and that the Committee supports the Board's approval of the Statement;
- the overall risk management systems are adequate for the effective governance of the Trust and allow the organisation to understand and manage its key risks;
- there are no significant areas of duplication or omission in the organisation's governance systems that have come to the attention of the Committee that have not been adequately resolved;
- the evidence to demonstrate fitness to register with the Care Quality Commission (CQC) was consistent with the Committee's understanding of the status of the organisation's governance arrangements.

8. AUDIT COMMITTEE FORWARD PLAN

Based on this review, the key areas of focus for the Audit Committee to gain assurance in 2012/13 are:

- the acquisition process and associated issues arising from interim management;
- the adequacy of staffing of the Governance function and the risk of other staff losses;
- financial management and in particular the cost improvement plan;
- timely clearance of audit recommendations and, in particular, those arising from the clinical governance review.

Mark Evens
NON-EXECUTIVE DIRECTOR AND
AUDIT COMMITTEE CHAIR

AUDIT COMMITTEE ANNUAL REPORT 2011/12
TABLE OF MEETINGS AND ATTENDEES

	April 2011	May 2011	2 June 2011	7 June 2011	July 2011	September 2011	November 2011	January 2012	February 2012
MEMBERS									
Mark Evens	Y	Y	Y	Y	Y	Y	Y	Y	Y
Michael Bonner	Y	Y	Y	N	Y	Y	Y	Y	Y
Judith Cooke	N	Y	Y	Y	Y	N	Y	Y	Y
Philip Day	N	N	Y	Y	N	N	N	N	N
ATTENDEES									
Alistair Mulvey	N	Y	Y	Y	Y	Y	Y	Y	Y
Eric Gardiner	N	Y	Y	Y	Y	Y	Y	Y	Y
Ramona Duguid	N	Y	Y	Y	N	Y	Y	Y	Y
Cheryl McAdams	Y	Y	N	Y	Y	Y	Y	Y	Y
Jackie Bellard	Y	N	Y	Y	Y	Y	Y	Y	N
Gina Martlew	Y	Y	Y	Y	Y	N	Y	Y	Y

As well as the regular attenders above, other Trust members have attended meetings on an ad hoc basis, as and when required to do so. These attendees are not listed.