

Audit Committee Annual Report 2015/16

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 31 March 2016.

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 Audit Committee membership is constituted from lay/independent members.
- 2.3 The Audit Committee has delegated responsibility from the Governing Body for the oversight of:
- integrated governance;
 - risk management and internal control;
 - internal and external audit;
 - reviewing the findings of other significant assurance functions;
 - counter fraud and security management;
 - financial reporting.
- 2.4 It is the responsibility of the CCG's Senior Management Team to establish and maintain proper processes for governance. The role of the Audit Committee is to provide the Governing Body with independent assurance on systems and processes through challenge and scrutiny of internal audit, external audit and other bodies.

3. Governance, Risk Management and Internal Control

Membership

- 3.1 Sheenagh Powell was appointed as Lay Member and Chair of the Audit Committee from June 2015.
- 3.2 David Booker, Lay Member, was in place throughout the financial year April 2015 to March 2016 and took the role of Chair for the May meeting pending appointment of a new Chair.
- 3.3 Dr Shaun O'Connell, GP Governing Body Member, was a member of the Audit Committee for the May 2015 meeting.

- 3.4 Dr Tim Maycock, GP Governing Body Member, was a member of the Committee from September 2015 to March 2016.
- 3.5 Dr Arasu Kuppaswamy, Governing Body secondary care clinician, was a member of the Committee from April 2016.
- 3.6 Tracey Preece was in attendance as Chief Finance Officer throughout the financial year.
- 3.7 Michelle Carrington, Chief Nurse, attended meetings as required.

Governance

- 3.8 As a fully authorised CCG during 2015-16, the CCG was assessed through the CCG Assurance Framework as Inadequate by NHS England. This related to three of five domains:
 - Well-led
 - Finance
 - Planning

In relation to the domains; delegated functions and performance the CCG has been rated as requiring improvement.

- 3.9 The CCG has a series of financial controls in place and these were subject to review via Internal Audit with significant assurance opinions provided for Information Governance, Primary Co-Commissioning delegation arrangements, Conflicts of Interest, Risk Management and Training and Development.
- 3.10 The CCG had policies in place regarding conflicts of interest and business conduct, and published the declarations of interest for Governing Body members. In addition, the CCG undertook a review and refresh of the Risk Management Framework and Strategy and the Terms of Reference of all committees have been subject to review to ensure on-going and enhanced effectiveness.
- 3.11 The Audit Committee itself undertook a review of terms of reference and work plan taking account of the new Healthcare Financial Management Association NHS Audit Committee Handbook.

Risk Management

- 3.12 A robust Risk Management Framework was in place throughout the year, with risk, performance and financial issues being reported weekly to the Senior Management Team, monthly to the Quality and Finance Committee and to each Governing Body meeting, via the minutes of the Quality and Finance Committee. The CCG continues to embed the Covalent system for recording and reporting of risk. An escalation process in Covalent has been agreed to escalate risk to the Corporate Risk Register. The Corporate Risk Register is reviewed by the Governing Body at each meeting. The Governing Body is well-sighted

on the risks facing the organisation through the Corporate Risk Register and via the Quality and Finance Committee.

- 3.13 The CCG has strengthened working links between the Quality and Finance Committee and the Audit Committee throughout the year and this has been evidenced by the issues escalated which have resulted in the Audit Committee commissioning Internal Audit work.

4. Internal Audit

- 4.1 The Internal Audit Plan for 2015/16 was developed with reference to the CCG Assurance Framework and Risk Assessment processes and through consultation with the Senior Management Team as well as Audit Committee members. The Committee approved the plan at its meeting on 11 March 2015. 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 work of Internal Audit has continued to focus on the progress being made in designing, implementing and embedding core processes to underpin the delivery of the CCG's strategic objectives. As such the audit plan was structured around the following key responsibilities of the CCG:

- Governance (incorporating assurance and risk management)
- Securing Improvements in Quality
- Commissioning and Contract Management
- Partnerships
- Financial Governance
- Information Governance

- 4.3. A total of 120 days were allocated for this work, of which 10 were for the Management of Audit, 4 for Follow Up of Audit Recommendations and a further 9 were held as a Contingency / Client Directed. 114 days were used for Internal Audit with 6 vired for investigative Local Counter Fraud work.

- 4.4 In April 2016 the Committee received the Head of Internal Audit opinion relating to the financial year 2015/16. 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. The Head of Internal Audit Opinion was given in the context of the following:

- The current CCG financial position: The CCG is currently classed as an organisation in turnaround, which is due to the deteriorating financial position during 2015/16. Key factors affecting the CCG's position have

been; the implementation of and under-delivery against Better Care Fund (BCF) funded schemes resulting in an over-trade against acute contracts; an underlying gap in the financial plan that plans were not identified to meet; under delivery of QIPP schemes; and weaknesses in the risk management process for ensuring mitigating actions are in place and deliver the required improvement. The CCG's management team have put in place a financial recovery strategy and turnaround action plan, supported by a refreshed accountability and PMO structure and are being supported by NHS England and an independent team of senior NHS colleagues who are providing peer challenge and guidance.

- The design and operation of the Assurance Framework and associated processes: During 2015/2016 the Clinical Commissioning Group's (CCG) arrangements for managing risk and providing assurance to the Governing Body have continued to mature. The Governing Body has agreed an Assurance Framework which is aligned to strategic objectives and has been reviewed twice this financial year by the Audit Committee.
- The range of individual opinions arising from risk-based audit assignments, contained within risk-based plans that have been reported throughout the year and detailed in paragraph 4.5 below.

4.5 The outcome of the audit reports presented to the CCG from the 2015/16 audit plan are summarised below.

Audit	Assurance Level
Preparation for Primary Care Co-Commissioning	Significant
Safeguarding Children	Significant
Management of Conflicts of Interest	Significant
Quality Improvement	Limited
Better Care Fund	CYC – Limited NYCC – Significant ERYC - Significant
Procurement Governance	Significant
Financial Governance	Significant
Information Governance Toolkit	Significant
Training and Staff Development	Significant
Partnership Commissioning Unit* –	
Mental Health Act Section 117	Limited
Children and Families Act	Significant
Self Billing Funded Nursing Care	Significant
Information Governance Toolkit	Significant
Financial Reporting Processes	Significant – core processes
Continuing Healthcare	Limited – Forecasting for High Cost CHC package Limited

* Note: The Partnership Commissioning Unit (PCU) is a hosted organisation established by the CCGs in North Yorkshire to undertake

commissioning activities on behalf of all four organisations. This includes Continuing Health Care, Children Services Commissioning, Mental Health Commissioning and Adult Safeguarding. As part of each internal audit plan a number of audit days are allocated to the audit of systems and controls at the PCU in order to provide assurance to all four CCGs. A detailed audit plan for the PCU for 2015/16 was agreed to provide assurance in relation to the commissioning activities undertaken on behalf of the CCGs.

5. External Audit

- 5.1 Mazars LLP are the External Auditors for all the North Yorkshire and York CCGs with Mark Kirkham as Partner and Catherine Andrew as Senior Manager, managing the CCG contract and attending each Audit Committee meeting. They also hold regular liaison meetings with the Accountable Officer, Chief Finance Officer and Chief Operating Officer.
- 5.2 The fee to External Audit for work undertaken included auditing the CCG's financial statements, which incorporated a review of the Annual Governance Statement, Annual Report and auditing certain sections of the Remuneration report; and assessing arrangements for achieving value for money in the use of resources.
- 5.3 The audit fee was £60k plus VAT for 2015/16. There were no additional pieces of work commissioned from the External Auditors during 2015/16. However, Mazars LLP did host events, such as the NHS Accounts workshops, the lessons from Southern Health seminar and the Better Care Fund event, which CCG members of staff attended.
- 5.4 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 LLP subsequently issued the CCG with an unqualified opinion on the financial statements for 2015/16. They also issued a modified regularity opinion and qualified (adverse) value for money conclusion, relating to the failure of the CCG to meet its statutory duties under:
 - Section 223H(1) of the NHS Act 2006 (as amended) to ensure expenditure did not exceed income in 2015/16; and
 - Section 223I(3) of the NHS Act 2006 (as amended) to ensure revenue resource use does not exceed the amount specified in the Direction.
- 5.5 Except for the incurrence of expenditure in excess of the specified targets, the opinion of the External Auditor was that in all material aspects the expenditure and income reflected in the financial statements have been applied to the purposes intended by Parliament and the financial transactions conform to the authorities which govern them.

6. Local Counter Fraud Service (LCFS)

- 6.1 The Committee approved the 2015/16 plan in April 2015 which included 8 days allocated, 6 for proactive and strategic work and 2 for reactive work. A further 6 days were vired from Internal Audit for investigative Local Counter Fraud work.
- 6.2 In February 2015 NHS Protect issued the updated *Standards for commissioners – fraud, bribery and corruption* to LCFSs and Chief Finance Officers. The standards are intended to outline an organisation's corporate responsibilities regarding counter fraud and the key principles for action. These are:
- Strategic Governance – this sets out the requirements in relation to the strategic governance arrangements of the organisation to ensure that anti-crime measures are embedded at all levels across the organisation.
 - Inform and Involve - this sets out the requirements in relation to raising awareness of crime risks against the NHS, and working with NHS staff and the public to publicise the risks and effects of crime against the NHS.
 - Prevent and Deter - this sets out the requirements in relation to discouraging individuals who may be tempted to commit crime against the NHS and ensuring that opportunities for crime to occur are minimised.
 - Hold to Account - this sets out the requirements in relation to detecting and investigating crime, prosecuting those who have committed crimes, and seeking redress.

The Counter Fraud plan for 2015/16 was structured and implemented in accordance with these principles.

- 6.3 The Local Counter Fraud Specialist, Steven Moss, is a regular attendee at Committee meetings and provides regular updates on proactive and reactive counter fraud work in these areas.
- 6.4 In order for NHS Protect to derive a clear picture of the work conducted and assess compliance with the counter fraud standards every NHS commissioner is now required to submit a Self Review Tool (SRT). The SRT is intended to enable the organisation to produce a summary of the anti-fraud, bribery and corruption work it conducted over the previous financial year. Organisations are required to complete the SRT annually and return it with the annual report to NHS Protect.
- 6.5 A review of the SRT identified that the CCG feels it has fully met 19 of the standards, partially met 5 of the standards and recorded a neutral response against one standard resulting in an overall level of green. This represents an improvement on the CCG's 2014/15 submission, which identified that the organisation had fully met 14 of the standards, partially met 10 and was non-compliant with 3. In 2014/15 the overall level of compliance was amber.

- 6.6 The CCG recorded non-compliance against two standards, which related to provider compliance with anti-fraud, bribery and corruption requirements set out in the NHS Standard Contract. The committee was advised that technical and governance issues had prevented NHS Protect's Quality and Compliance Team establishing the requisite arrangements therefore non-compliance was not the fault of the CCG and for this reason was not expected to have a negative impact.
- 6.7 In regard to the inform and involve workstream, a number of fraud awareness bulletins and alerts were issued to relevant CCG staff.
- 6.8 In relation to reactive counter fraud work there have been three investigations which the CCG has complied with:
- Procurement referral
 - Prescription referral
 - Employee's credentials referral
- 6.9 Information was shared as appropriate with regards to these and within the information governance and data protection regulations.
- 6.10 The total number of days used was 14 as follows:

Area of Activity	Number of Days
Strategic Governance	4.5
Inform and Involve	0.5
Prevent and Deter	3.0
Hold to Account	6.0
Total	14.0

7. Other Assurance Functions

- 7.1 In terms of Commissioning Support (CS) governance the Committee received a number of Service Auditor Reports in 2015/16. NHS England and Yorkshire and Humber Commissioning Support appointed independent auditors Deloitte LLP to undertake their Service Auditor Reports.
- 7.2 Each report was prepared in accordance with the guidance set out in the International Standards on Assurance Engagements 3000 and 3402 ("ISAE 3000 and 3402") and the Institute of Chartered Accountants in England and Wales Technical Release AAF 01/06 ("AAF 01/06"). The reports are a Type II report which provides assurance over the suitability of the design and operating effectiveness of the controls that are necessary to achieve the control objectives specified for a given period
- 7.3 The scope of the reports covered the following business process areas for CS customers:
- Accounts Payable
 - Accounts Receivable
 - Financial Reporting
 - Treasury and Cash Management
 - Payroll

7.4 In summary the overall opinion was that the controls related to the control objectives were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period evaluated. Moreover, the controls that were tested were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives stated in the description were achieved throughout the period evaluated.

7.5 The opinion was, however, qualified on the basis of a number of control objectives, although only one of these related to services provided to Vale of York CCG:

Control Objective F.5: Access to ESR User Responsibility Profile(s) is restricted. Testing showed that the CSU had failed to achieve this objective.

7.6 In respect of the Service Level Agreement (SLA) between the Partnership Commissioning Unit (PCU) hosted by NHS Scarborough and Ryedale CCG, NHS Harrogate and Rural District CCG, NHS Hambleton, Richmondshire and Whitby CCG and the CCG, the Committee acknowledged the work done to improve the systems and processes that support delivery of services. However, as identified by Internal Audit, there remain some areas of concern that will need continued monitoring and review. A detailed review of CHC financial reporting and financial planning procedures was initiated in March 2016 and was expected to be reported and recommendations actioned in 2016/17.

7.7 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.

7.8 As at the 31st March 2015 the CCG had recorded no losses and there had been no write offs of CCG debts.

8. Meetings and areas of note considered by the Audit Committee in 2015-16.

8.1 The following table details the each meeting of the Audit Committee for 2015-16 and details areas of note from the Committee discussion.

Meeting Dates	Areas of Note from the Committee Discussion
27 May 2015	The agenda related mainly to consideration and approval of the CCG's 2014/15 annual accounts and associated documents. All relevant officers, including the CCG Chair and Chief Clinical Officer, were in attendance. Good levels of assurance and value for money ratings were confirmed by Internal and External Auditors.

<p>8 July 2015</p>	<p>Areas of note from the Committee discussion were:</p> <ul style="list-style-type: none"> • Review of the Committee Terms of Reference, including membership of the Committee. • Submission of the Audit Committee Annual Report to the Governing Body to note. • Managing risks of Commissioning Support changes. • Update on changes to the NHS England CCG Assurance Framework and revision to CCG Assurance Framework to be presented again at the September Committee meeting. • Update on Information Governance and noting the Information Governance Work Plan. • Receiving the External Audit update which highlighted the CIPFA briefing papers 'Moving ahead with integration' and the consultation on regulation of auditors, Financial Reporting Council, May 2015. • Receiving the Annual Audit Letter, to be circulated to the Governing Body. • Receiving an Internal Audit update with a detailed review of outstanding audit recommendations; only one high priority recommendation remained outstanding. • Noting the Security Management Briefing for Clinical Commissioning Groups and resolved this would be taken forward internally. • Primary Care co-commissioning and how counter fraud should be considered
	<p>The Audit Committee highlighted the following to the Governing Body:</p> <ul style="list-style-type: none"> • The Committee requested to see a risk assessment and planned mitigations for the transition of commissioning support services. • The Committee agreed there was a need to identify a lead manager to take forward and oversee the security plan. • The Committee discussed the revision of the Governing Body Assurance Framework in the light of the recently published NHS England CCG Assurance Framework and the subsequent discussions held at the July Governing Board workshop. The timescale for a revised assurance framework was agreed as September 2015.
<p>8 September 2015</p>	<p>Areas of note from the Committee discussion were:</p> <ul style="list-style-type: none"> • Submission of the Financial Control Environment Assessment. • Concern about levels of risk relating to the transition from Yorkshire and Humber Commissioning Support • Risk associated with Business Intelligence

	<ul style="list-style-type: none"> • Progress with the CCG's Assurance Framework but greater need for information on mitigation of risks • Primary care co-commissioning: <ul style="list-style-type: none"> - Not included as a risk on the Assurance Framework - Concern about outstanding guidance from NHS England • Progress towards becoming a paperless organisation
8 December 2015	<p>Areas of note from the Committee discussion were:</p> <ul style="list-style-type: none"> • At this meeting the AC considered the results of a survey on the effectiveness of the CCG's external auditors. There were a very small number of areas for improvement and Mazars have been asked to respond on these. The AC will consider the effectiveness of the AC itself as well as the effectiveness of internal audit and counter fraud services at their next meeting. • In response to concern with regard to the financial position of the CCG, the AC asked internal audit to carry out an urgent audit on the financial processes and forecasting of the PCU. • The AC considered the updated Procurement Policy and advised amendments were required before approval by the Governing Body. • AC approved the updated Detailed Financial Policies subject to minor amendments. • AC considered the updated action tracker from the Financial Control Environment Assessment. This is now a standing item on the AC agenda. • By December 2016 the CCG will need to have procured External Audit services to provide assurance from 2017/18 financial year and beyond. Up to now External Auditors have been appointed by the Audit Commission. The CCG will need to set up an audit panel which will be brought to the Governing Body for approval in the near future. The CCG is working in collaboration with other North Yorkshire CCGs on this procurement. • Revised structure of the Finance and Contracting Team Risk Register and implementation on Covalent to be presented to the January Quality and Finance Committee
	<p>The Audit Committee highlighted the following to the Governing Body:</p> <p>Consideration to be given to the possible need to delegate powers from the Governing Body to the Audit Committee to approve the year end accounts and reports.</p>
8 March 2016	<p>Areas of note from the Committee discussion were:</p>

- The AC received reports on the self assessment surveys on the effectiveness of the AC itself and also the effectiveness of the internal audit and counter fraud services (CFS). There are minor action points to implement in the light of these surveys as overall the results were satisfactory.
- The AC considered for approval the draft plans for internal audit and counter fraud service for 2016/17. The CFS plan was approved and will cover areas reflecting the NHS Protect Standards of Strategic Governance, Inform and Involve, Prevent and Deter and Hold to Account. The internal audit plan was referred back to the management team to further consider including work on QIPP assurance.
- The month 9 draft accounts, which were submitted to NHS England in February, were received and noted by the AC. The draft head of internal audit opinion was submitted at the same time. This provided significant assurance however it included a caveat recognising the financial position of the organisation.
- The AC considered a detailed paper outlining for agreement the case for producing the accounts for 2015/16 on a going concern basis. This was agreed in line with accounting guidance on the basis that services will continue despite organisational viability.

Other internal audit matters:

- The AC followed up on the Partnership Commissioning Unit (PCU) audit on financial reporting. This had been requested urgently in light of the volatile expenditure reporting experienced by the CCG mid year. Concern was expressed on the length of time it was taking to receive the report. The draft, it was assured, was due in the days following the AC.
- Of concern was the receipt of two limited assurance audit reports.

The first related to Quality Improvement. The chief nurse attended the AC with regard to the report and agreed with the findings. She stated that whilst much had been done with regard to the Quality and Performance Sub Committee with York Teaching Hospital NHS Foundation Trust, there was more work to do.

The second related to Management of Commissioning of Aftercare under Section 117 of the Mental Health Act. The AC asked that members of the PCU are asked to attend the AC to discuss this and the PCU financial report when it is issued.

The AC also requested that when limited assurance reports are issued they should be sent to members of the

	<p>audit committee straight away rather than wait for the next committee meeting.</p> <p>A third audit report regarding the Management of Conflicts of Interest was given significant assurance.</p> <ul style="list-style-type: none"> • The AC received an update on the potential merger, which is now at due diligence stage, of the West Yorkshire Audit Consortium and the North Yorkshire Audit Service.
	<p>The Audit Committee highlighted the following to the Governing Body:</p> <ul style="list-style-type: none"> • The two limited assurance audit reports as outlined above. • The procurement of an external audit provider is due to be completed before the end of 2016 to begin to provide services from the 2017/18 financial year. The contract with Mazars will finish at the end of 2016/17. Work continues on the process for procurement with further guidance from NHs England being recently received. Further updates will be provided to the Governing Body throughout the process.
<p>28 April 2016 and 24 May 2016</p>	<p>The Audit Committee met on 28 April 2016 to review the annual report, governance statement and accounts which had been submitted in accordance with the national timetable for audit. The committee met again on 24 May 2016 to receive the External Audit completion report, have sight of any amendments during audit and to approve the accounts on behalf of the Governing Body in accordance with the Committee's delegated powers. This enabled the submission of accounts by the due date.</p> <p>In discussions with NHS England and the CCG's auditors, Mazars, it was agreed that in Mark Hayes absence, Helen Hirst, as the interim accountable officer, would sign the documentation despite her not being in that role during the 2015/16 reporting year.</p> <p>Other significant matters of debate were:</p> <ul style="list-style-type: none"> • With regard to the services received from the Partnership Commissioning Unit (PCU). Areas of note are three limited assurance audit reports during the year and, in addition, queries with the PCU during the year end audit. • The limited assurance audit report on the City of York Better Care Fund and the concern around this important area of partnership working both for the end of last financial year when the audit was carried out, and lessons learned for this year.

	<p>The Audit Committee highlighted the following to the Governing Body:</p> <p>A request has been made to senior members of the PCU to attend the Governing Body on 2 June with regard to the limited assurance audit reports and ongoing concerns.</p>
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9. Future Plans

- 9.1 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 2016/17 the Committee will continue to take particular cognisance of the level of QIPP given the level of financial challenge facing the CCG, taking assurance from the Auditors and the Quality and Finance Committee.
- 9.2 The Committee will continue to closely monitor assurance arrangements for the Commissioning Support services, including eMBED-led services and PCU as key partner organisations to the CCG.
- 9.3 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.
- 9.4 The Committee will also continue to review the Scheme of Delegation to ensure it is up to date and covers all relevant areas including the Primary Care Co-Commissioning arrangements and finalise the list of complete Financial Procedure Notes.
- 9.5 The Committee will consider future external arrangements from 2017/18. This will be undertaken by an Auditor Procurement Panel.
- 9.6 The Committee will report to the Governing Body on a regular basis.

10. Recommendations

- 10.1 The Governing Body is asked to receive and note the Annual Report.

Audit Committee Members Attendance April 2015 – June 2016

Name	Committee Membership	Attendance
Sheenagh Powell – Chair	From June 2015	5/5
David Booker (Chair for May meeting pending appointment of new Chair)	From April 2015	6/6
Arasu Kuppuswamy	From May 2016	1/2
Tim Maycock	September 2015 to March 2016	3/3
Shaun O'Connell	May 2015	1/1