

ITEM: 5

MEETING: Trust Board
16th May 2007

TITLE: Annual Report from the Audit Committee

SUMMARY:

Attached is the annual report of the Trust's Audit Committee for the 2006/07 financial year.

ACTION:
for information / discussion

REPORT FROM:

Peter Farmer
Trust Vice Chairman & Audit Committee Chair

SPONSORED BY:

Peter Farmer

Financial details supplied/checked by:
(Name of finance officer)
N/A

Recommendations contained within this paper have been checked for compliance with relevant statute and regulations/directions/policy as follows:

Integrated Governance Handbook



WHITTINGTON HOSPITAL NHS TRUST

Audit Committee

Annual Report 2006/7

Introduction

The purpose of this report is to report to the Trust Board on how the Audit Committee (AC) has met its Terms of Reference in 2006/7.

The AC was comprised of three Trust Board Non-Executive Directors: Peter Farmer (Chair of AC), Dee Henry and Maria Duggan. All three are also members of the related Assurance Committee (chaired by Dee Henry).

Internal Audit services (and supporting Local Counter-Fraud services) are provided under contract to the Trust by Parkhill Audit Agency. External Audit is carried out by the Audit Commission.

The Committee met on three occasions during the financial year– in June 2006, November 2006, and March 2007. All AC meetings were attended by both Internal and External Audit representatives, by the Director of Finance, and by finance and other trust staff as appropriate. In addition papers were circulated and commented upon. All specific Internal Audit reports were reviewed by the Chair and selected ones, especially where significant issues were raised, were subsequently circulated to the full committee. All such reports were summarised, reported and discussed at AC meetings.

In March 2007, a private meeting was held between both Internal and External audit representatives and the AC members without Trust staff being present. No significant issues were raised on this occasion. Both the AC members and the auditors were informed and aware that any specific issues could be raised between themselves at any time either party agreed it would be desirable.

At the March 2007 meeting the AC and attendees undertook a review of its performance using a checklist included in the current Department of Health and HFMA *NHS Audit Committee Handbook*. Again no significant issues were raised. The content of this Report follows closely the recommendations of that Handbook.

Main Areas of Activity

The AC followed a planned programme of Agendas, again closely related to the models shown in the Handbook.

The key issues covered were:

- Annual Audit Plan
- Annual Accounts
- Annual Audit Letter

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Each individual meeting also addressed a standard set of Agenda items including:

- Local Counter-Fraud report
- Internal Audit update
- External Audit update
- Tender Waiver report
- NHS debtors greater than £5,000 and over six months old
- Recommendations for write-off of non-NHS bad debt

Main Conclusions

The AC gained substantial assurance that the governance arrangements of the Trust were robust and that business, financial and clinical risks were all being adequately managed. A key part of this was gained also through the Assurance Committee which executed significant review and assurance of non-financial risk and control issues.

Reports received and discussed with both Internal Audit and External Audit generally gave positive assurance to the AC, however recommendations for changes and improvements were noted. There were seven internal audit reports issued, of which only one (Debtors) was given an overall opinion of limited assurance.

All recommendations, as in previous years, will be followed up routinely to ensure progress. At the specific request of the AC a consolidated list of all Internal Audit recommendations which had not been agreed as implemented (whether High, Medium or Low priority) was drawn up for presentation and review by the AC.

There were 128 recommendations from the previous year of which 103 have now been implemented, although some of these are yet to be verified by Internal Audit.

The main concern identified relates to the overall financial position and sustainability of the Trust. Whilst this remains a very significant worry, the AC were reassured that the various management and government systems within the Trust were addressing these as energetically as possible. The success of these measures was reflected in increasingly confident year end forecasts and actual out-turn. The AC was also reassured that the basic financial systems, including budgeting and financial reporting, were assessed as providing substantial assurance.

Although it was felt that the overall governance systems were adequate, and indeed were working well, it was acknowledged that this needed to be kept closely under review. This is especially so given the most recent version of the Handbook and the *Integrated Governance guidelines*. At face value these seem to propose a different model to that in which the Audit and the Assurance Committees at the Trust operate. Whilst there was some confidence that our arrangements at least meet and possibly exceed the requirements of the new guidelines it was decided the arrangements should be revisited and discussed at TB level. This took place during the year and the TB agreed to maintain the current arrangements which they felt were working satisfactory. The structures would however be revisited if/when the Trust achieved Foundation trust status.

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The AC also discussed the new ALE system of assessment by the External Auditors of the Trust's financial management and situation. Serious concerns were expressed about the sensitivity, reliability and value of the proposed system. These were compounded when the final result for 2005/6 was published showing the Trust as "Level 2 – only at minimum requirements". Explanation and advice were sought from the Auditors. The AC was re-assured that provided a limited number of issues were addressed (including providing evidence) a more appropriate grading would be achieved for 2006/7.

Formal Conclusions

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

The AC therefore confirms that:

- It has reviewed and recommended to the TB the draft Statement of Internal Control.
- It believes that the overall risk management systems are at least adequate for the effective governance of the Trust. They do not lead to any potential major omissions or duplications

The AC is also advised to confirm that it has reviewed and used the Assurance Framework and believes it fit for purpose. In our case however, given the key role of the Assurance Committee, the AC confirms that it believes that these processes are in place and is assured that the Assurance Committee's processes are adequate.

Similarly, the AC is assured that the Assurance Committee adequately oversees the self-assessment of the Healthcare Commission's Standards for Better Health and ensures that this is consistent with the Assurance Framework.

Footnote

The AC is very grateful for the professional and quality support it receives, especially from the Director of Finance and his/her staff and from the Internal and External Auditors. Special thanks are due to Trish Donovan for taking over the committee support role so admirably and then acting as Finance Director for an extended period.