



**Department of Health – Audit Committee
Annual Report to the Departmental Board
2008 - 09**

DH Audit Committee - Annual Report to the Departmental Board 2008 - 09

Role of the Audit Committee

1. The DH Audit Committee was constituted in its current form in 2002. Its purpose is to advise the DH's two Accounting Officers (the Permanent Secretary and NHS Chief Executive) on matters relating to risk management, corporate governance, internal controls and assurance relating to both DH and all its subordinate bodies. Overall responsibility for matters the Committee considers remains with DH's Accounting Officers.
2. The Audit Committee's terms of reference is attached at Annex A, together with its membership. The Committee fulfils its remit by focusing on three areas:-
 - a) advising the Accounting Officers on the quality of risk management, corporate governance and internal control within the Department;
 - b) satisfying itself and advising the Accounting Officers on the adequacy of accountability arrangements established to support them across the spectrum of their accountabilities; and
 - c) advising the Accounting Officers on the adequacy of the Department's arrangements to monitor and act upon the findings and recommendations of external audit and scrutiny bodies (including the Public Accounts Committee, National Audit Office, Audit Commission, Commission for Health Improvement, Commission for Social Care Inspection – merged to form the Care Quality Commission from April 2009).

Membership

3. The composition of the Audit Committee during the financial year 2008-09 was as follows:

Derek Myers	Non Executive Member (NEM) and member of DH's Departmental Board. Chief Executive, Kensington and Chelsea Council	Chair of the Audit Committee from September 2006. Current term to end in September 2009
Mike Wheeler	NEM and member of DH's Departmental Board and the Performance Committee.	Joined the Audit Committee in June 2006 for a three year term which has been extended to June 2011

Tony Allen	NEM. Non-executive Director of the Health and Social Care Information Centre and Chairman of its Audit Committee.	Joined the Audit Committee in February 2007 Current term ends in February 2011
Jane Ramsey	NEM Non- Executive Director of University College Hospitals Foundation Trust	Joined the Audit Committee in January 2007 Current term ends in January 2011
Michael Hearty	NEM Acting Director General of Corporate Services Division, Department for Children, Schools and Families	Joined the Committee in September 2007. Current term ends in August 2011

Register of Interests

Member	Interest declared
Derek Myers	None
Mike Wheeler	Non-executive member of the Audit committee of Dubai Holdings Senior Adviser to Close Brothers Corporate Finance Senior Adviser to BDO Stoy Hayward Non-executive member of the Institute of Financial Services
Jane Ramsey	None
Tony Allen	None
Michael Hearty	None

Frequency of meetings

4. The Committee met six times during 2008-09. The Non Executives also met with the Director of Finance to review the draft DH Resource Accounts and NHS Summarised Accounts.

Members' attendance at meetings 2008 – 09

Member	Meetings Attended
Derek Myers	5
Mike Wheeler	5
Jane Ramsey	5
Tony Allen	6
Michael Hearty	3

Audit Committee Business April 2008 – March 2009

5. The following account provides an overview of business conducted by the Audit Committee during the financial year 2008-09. The Committee's remit covers:
 - quality of risk management, corporate governance and internal control;
 - adequacy of accountability arrangements;
 - arrangements to monitor and act upon external bodies' recommendations.

Quality of risk management, corporate governance and internal control

6. In discharging our responsibilities the Committee:
 - submitted the Audit Committee's Annual Report 2007-08 to the Departmental Board;
 - received, requested amendments and subsequently recommended sign-off of the Department's Resource Account 2007-08 (including a review of the draft Statement of Internal Control before its inclusion) and the NHS Summarised Accounts 2007-08;
 - agreed the proposed procedure for approval and signing-off of the final 2007-08 Commission for Patient and Public Involvement (CPPIH) accounts. This was undertaken by the Chair of the Audit Committee and the Chief Executive of the NHS;
 - provided direction, advice and challenge on Information Security and data handling and the Committee received regular updates on the Department's progress with implementing the Cabinet Office requirements in this respect in the Department, its Arms Length Bodies (ALBs) and the NHS;

- received the NHS Counter Fraud Services Performance Report 2007-08 and recommended that the 2008-09 report contain more analysis and estimate of the amount of fraud in the NHS;
- received the National Information Governance Board (NIGB) Annual Report 2008 and agreed to have oversight of future reports and to be notified of any significant governance issues by NIGB;
- reviewed at each meeting the Department's high level risk register and provided direction and challenge where needed. The Committee requested that the risk register templates highlight the changes since the previous version to enhance Committee's interrogation of the register. The Committee emphasised the importance for it to have sight of all high level risks, no matter how big the list;
- received a presentation from the Director of Operations which informed the Committee on the process involved in compiling the high level risk register; how the Department's Risk Forum considers the risks on the register and how the Forum provides the Departmental Board with advice;
- received updates on the performance and financial position of the NHS by way of reports on key matters at each Committee meeting, in particular:
 - the National Programme for Information Technology (NPfIT);
 - the NHS Annual Report;
 - Lord Darzi's NHS Next Stage Review 'High Quality Care for All';
 - NHS achievement of Public Service Agreement (PSA) targets including delivery of the 18 weeks maximum waits between GP referral and hospital treatment target and reducing the rate of MRSA infections;
 - NHS Operating Framework.

7. The Committee received updates and kept abreast of all key issues and events within the Department of Health, in particular:

- the Department's progress to deliver the actions agreed in response to the Cabinet Office's Capability Review 2007;
- the Department's Business Plan and arrangements for the years 2009-2011;
- the Department's Annual Report;

- the successful launch of the Department's Integrated Business Management System (BMS);
- the Department's plans for faster closure and publication of DH Accounts 2008-09;
- progress on compliance with the International Financial Reporting Standard (IFRS);
- the Prime Minister's Delivery Unit (PMDU) review of the Department's Better Health and Wellbeing PSA 18 target.

Adequacy of accountability arrangements

8. The Committee received and discussed:

- comprehensive updates from the Head of Assurance Strategy and Audit (ASA) at each Committee meeting. This covered recently completed reports, the Assurance Plan, consultancy work and an assessment of the Department's corporate governance arrangements and mitigating strategies for dealing with recommendations and identified risks;
- ASA's annual report and opinion, suggesting necessary changes ;
- ASA's Charter, requesting that it be bolder and include a section on access to Freedom of Information.

Arrangements to monitor and act upon external bodies' recommendations

9. The Committee also:

- received presentations on, and discussed the work of external bodies contributing to the assurance and accountability arrangements;
- received an annual overview of the forward programme of the National Audit Office (NAO) and the Audit Commission. The Committee expects to see a forward work programme of the new Care Quality Commission (CQC) during 2009-10;
- received regular updates on the follow up by the Department of recommendations agreed from reports by the NAO, Public Accounts Committee, Health Select Committee and Audit Commission;

- received and discussed the NAO Management Letter 2007-08 on the Department's Resource Account and NHS Summarised Accounts.

Special Meeting

10. The Committee held a special meeting on 17 November 2008 at which it agreed a new approach for the management and resourcing of the Department's Internal Audit function.

Minutes and record of decisions

11. A note of actions agreed at each meeting was circulated to Audit Committee members and relevant DH officials within 48 hours of each meeting.
12. The Chair received draft full minutes of each Audit Committee meeting within five working days for comment, and these provided a clear record of decisions reached and matters discussed. The Chair formally reported in writing to the Departmental Board after each meeting of the Committee. The Committee at the subsequent meeting formally approved the minutes.

Communicating the work of the Audit committee

13. A summary of the proceedings of each Audit Committee meeting was posted on the DH website within three months of each meeting.

Derek Myers
Chairman,
DH Audit Committee
June 2009

DH AUDIT COMMITTEE - Terms of Reference

1. **Role of the Audit Committee**

- 1.1 The role of the Audit Committee is to advise the Department of Health's Principal Accounting Officer, and the Additional Accounting Officer, on risk management, corporate governance and assurance arrangements in the Department of Health and its subordinate bodies (Agencies, Non Departmental Public Bodies, Special Health Authorities, Strategic Health Authorities, Primary Care Trusts, and NHS Trusts). In respect of the subordinate bodies, this Committee recognises the existence and role of Audit Committees within each body individually and, therefore, limits itself to consideration of issues affecting the bodies generally, to matters relevant to the Departmental Statement on Internal Control, and to inter-dependencies on assurance between subordinate bodies and matters under the direct control of the DH Accounting Officers.
- 1.2 Overall responsibility for matters considered by the Committee remains with the Principal and Additional Accounting Officers, acting through the Departmental Board.
- 1.3 The Committee is constituted to comply fully with the requirements set out in the HM Treasury guidance "Corporate governance in central government departments: Code of good practice" (2004), and further guidance in the "Audit Committee Handbook" (2007). This guidance requires that the Audit Committee 'should support the Board and Accounting Officer by reviewing the comprehensiveness of assurances in meeting the Board's and Accounting Officer's assurance needs, and reviewing the reliability and integrity of these assurances'.

2. **Membership**

- 2.1 The Audit Committee is constituted as a committee of five Non-Executive Members (NEMs) drawn from backgrounds in the NHS, local government, the corporate sector and Other Government Departments. One of the NEMs is the Chair.
- 2.2 The current Chair of the Committee is Derek Myers and Mike Wheeler is Deputy Chair.
- 2.3 The expectation is that the DH's Principal and Additional Accounting Officers will attend meetings of the Audit Committee, together with the DH Director General of Finance. Other senior officials of DH will attend particular meetings as required. Representatives of the Department's internal and external auditors will normally attend meetings of the Committee.
- 2.4 The Governance Branch of Operations Division (Finance and Operations Directorate) provides the secretariat to the Committee. The Secretary to the Committee is Stephen Mitchell (Head of Governance).
- 2.5 The Committee will be quorate with 3 members in attendance.

3. **Responsibilities**

3.1 The Committee fulfils its purpose through focus on three areas: DH internal control; accountability and assurance; and the recommendations of external bodies.

3.2 ***DH internal control***

3.2.1 The Committee advises the Departmental Board, the Principal Accounting Officer, and the Additional Accounting Officer, on the quality of risk management, corporate governance and internal control within the Department. In order to do this the Committee is required to advise on:

- a. the DH corporate risk register, risk management arrangements, standards of management assurance against key risks and the internal audit programme to support the DH Accounting Officer;
- b. the audit strategies and audit plans of the DH's internal and external auditors;
- c. the resourcing, activities and outcomes of the internal audit programme (Assurance, Strategy and Audit) work,
- d. the Annual Report of the DH Head of Internal Audit to be submitted to the Accounting Officer;
- e. the accounting policies, the accounts, and the annual report of DH, including the process for review of the accounts prior to submission for audit, levels of error identified, key judgements, any disputes between management and external audit, and DH management's letter of representation to the external auditors;
- f. the issues arising from the NHS and Summarised and DH Resource Accounts, including the external auditors' Management Letter to the Department and the adequacy of the management's response to it;
- g. the adequacy of management responses to issues identified by internal and external audit work, including the implementation of significant audit recommendations agreed by DH management, with a particular focus on any instances of non-implementation;
- h. the annual Statement of Internal Control to be signed by the DH Accounting Officer;
- i. the Department's Code of Business Conduct, in particular its policy on conflicts of interest, and its register of declared interests;
- j. any proposals for tendering for audit services, or for purchase of non-audit services from contractors who provide audit services;
- k. anti-fraud policies, whistle-blowing processes, and arrangements for special investigations; and
- l. the Audit Committee's own effectiveness

3.3 ***Accountability and Assurance***

- 3.3.1 The Committee is required to satisfy itself, and advise the Accounting Officers on the adequacy of, accountability arrangements established to support them across the spectrum of their accountability. To do this the Committee will:
- a. receive information on the accountability and assurance arrangements linking the Accounting Officer to the Accounting Officers and Accountable Officers in all subordinate bodies; and
 - b. consider any deficiencies in these arrangements and the assurance information flows.

3.4 ***Recommendations made by external bodies***

- 3.4.1 The Committee will advise the Principal Accounting Officer and the Additional Accounting Officer on the adequacy of the Department's arrangements to monitor and act upon the conclusions of and the recommendations made by external bodies (including the Public Accounts Committee, National Audit Office, Audit Commission, Healthcare Commission and Commission for Social Care Inspection (merged to form the Care Quality Commission from April 2009). To do this the Committee will:
- a. receive information on significant review and scrutiny reports submitted by external bodies to the Department of Health, which contain recommendations to be implemented by or through the Department;
 - b. seek assurance on the Department's arrangements to monitor and act upon recommendations, including the associated accountability arrangements; and
 - c. receive information from DH and/or reporting bodies (eg Audit Commission) on outstanding recommendations, the responsibilities for implementation and progress being made towards implementation.

4. **Rights**

- 4.1 The Audit Committee may:
- co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience; and
 - procure specialist ad-hoc advice at the expense of DH, subject to budgets agreed by the Principal Accounting Officer.

5. **Access**

- 5.1 The Head of Internal Audit, and the Assistant Auditor General responsible for Health at the NAO, will have free and confidential access to the Chair of the Audit Committee, and will normally attend meetings of the Committee.
- 5.2 At least annually the Chair of the Audit Committee will meet bi-laterally with the Head of Internal Audit and senior representatives of the external auditors.

6. **Meetings**

- 6.1 The Audit Committee will meet at least four times a year. The Chair of the Audit Committee may convene additional meetings, as the Committee deems necessary;
- 6.2 A minimum of three members of the Audit Committee will be present for the meeting to be deemed quorate;
- 6.3 Audit Committee meetings will normally be attended by the Principal Accounting Officer, the Additional Accounting Officer, the Director General of Finance and Operations, the Head of Internal Audit, and the NAO Assistant Auditor General responsible for Health; the Head of Governance will attend as Secretary to the Committee;
- 6.4 The Audit Committee may ask any other officials of the Department, or other organisations (including the Audit Commission), to attend to assist it with its discussions on any particular matter;
- 6.5 The Audit Committee may ask any or all of those who normally attend but who are not members to withdraw, to facilitate open and frank discussion of particular matters; and
- 6.6 The DH Board or the Accounting Officers may ask the Audit Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

7. **Reporting Arrangements**

- 7.1 The Audit Committee is a sub-Committee of the Department of Health Board (DB). The Chairman will formally report in writing to the DB after each meeting of the Committee.
- 7.2 The Committee will provide the DB and the Principal Accounting Officer with an Annual Report on the work of the Committee, timed to support the finalisation of the financial accounts and Statement on Internal Control, summarising the Committee's conclusions and recommended actions based on the work it has done during the year.
- 7.3 In exceptional circumstances, if the Audit Committee believes that the Principal Accounting Officer has failed to take written advice into account, and serious harm to the public interest is likely, a report may be submitted to the Secretary of State.