



**DH AUDIT COMMITTEE:**

**ANNUAL REPORT TO THE  
DEPARTMENTAL BOARD  
2005-06**

1. The DH Audit Committee was constituted in its current form in 2002. Its purpose is to advise the DH Board and 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 the DH Board and Accounting Officer.
2. The Audit Committee's terms of reference are annexed, with its membership. The Committee fulfils its remit through focus on three areas:
  - advising the Chief Executive on the quality of risk management, corporate governance and internal control within the Department
  - satisfying itself and advising the Chief Executive on the adequacy of accountability arrangements established to support him as Accounting Officer across the spectrum of his accountability
  - advising the Chief Executive on the adequacy of the department's arrangements to monitor and act upon criticism/recommendations made by external bodies (including Public Accounts Committee hearings, National Audit Officer, Audit Commission, Commission for Health Improvement, National Commission for Social Care).
3. The Committee met four times during 2005-6.

#### **Quality of risk management, corporate governance and internal control**

4. We received regular reports on the Department's corporate governance arrangements and its monitoring of and mitigation strategies for dealing with high level risk. We agreed that the risk register covered an appropriate number of risks for the Departmental Board to consider and advised that although it had rightly focussed on PSA targets it also ought to cover possible future risks. We encouraged the Department to develop their risk management further to include a review of mitigation strategies, and were pleased to note that some progress has been made on this. We also suggested that the Department's assurance could be improved by further work on horizon scanning.
5. In view of the range of risks involved, we considered the Connecting for Health programme in more detail at our October meeting. We noted the impressive risk and governance arrangements in place, but advised that local instances of problems with delivery and functionality could damage user perceptions of the programme and as a consequence NHS organisations might seek to source systems from elsewhere.
6. We received updates at our February and March meetings on the changes to the DH senior structure. We particularly noted and welcomed the creation of a more strategic role for the Director of Finance. We advised that it would be particularly important for the Department to establish revised governance, assurance and risk management arrangements as quickly as possible and that the Committee would need to consider its role and operation if there were to be two Accounting Officers.
7. We considered the draft of the resource accounts that the Department submitted to the National Audit Office (NAO) for audit. We recommended that in the interests of balance, the Operating and Financial review section of the account should reflect the NHS financial position and any future risks surrounding it.

8. We reviewed a near final draft of the Accounting Officer's statement on internal controls and recommended that it should include comment on the financial deficits reported at some PCTs and NHS trusts and on the qualification of some arms length bodies' and PCTs' accounts.

### **Adequacy of accountability arrangements**

9. We have received update reports from the Head of Assurance Strategy and Audit throughout the year. We noted that these are now beginning to address issues of real substance and that the new audit partner arrangements are taking root and the more strategic and systemic approach for which the Department had aimed.
10. We noted the continuing development of the assurance plan and wider assurance framework. We commented on the need for sensitivity analysis to inform decision making, but noted the very complex interdependencies inherent in some of the areas of business that the Department is currently taking forwards, for example in NHS systems reform.
11. We received updates from the Director of Finance at our February and March meetings on the NHS financial position and noted the work being undertaken to address financial deficits at some NHS organisations.

### **Arrangements to monitor and act upon external bodies' recommendations**

12. We received presentations on and discussed the work of external bodies contributing to the assurance and accountability arrangements.
  - NAO representatives attended each of the Committee's meetings and presented to us their annual management letters on the Department's resource accounts, the NHS summarised accounts, its audit strategy of 2005-06 and its findings from a review of arms length bodies' accounts. We noted that these were much more focussed than in recent years and raised matters of substantive interest. In particular, the Department had more to do to manage its relationships with its arms length bodies, but we noted that work was in hand to do this following the arms length body review.
  - The Audit Commission presented to the Committee the findings of its survey of its auditors on their audit of NHS bodies' 2004-05 accounts. The Commission found a small reduction in the timeliness of provision of NHS trusts' accounts and we advised that a move towards interim accounts would be helpful and noted Departmental piloting work in this area.
  - The Committee received a tripartite presentation from the Healthcare Commission, the NAO and the Audit Commission on the operation of the Health and Social Care Concordat. We were encouraged to hear that there was greater cooperation amongst the bodies' staff on the ground. We considered that there was more scope for joint studies and that it would be helpful if Monitor were also a signatory to the Concordat. We also suggested that, in developing future work, the three organisations should links their programmes to their assessments of likely risks, including the Department's risk register.

**Other issues**

13. We received a return maintained by the Department on losses and special payments and noted an improving position.
14. We reviewed the process for gathering declarations of interest and recommended that should include mandatory nil returns where appropriate and that non executives should be canvassed.

## **DH AUDIT COMMITTEE - Terms of reference**

### **1. Purpose**

1.1 The purpose of the Committee is to advise the Department's Accounting Officer on matters relating to risk management, corporate governance and assurance arrangements relating to both Department of Health and its subordinate bodies. 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 issues affecting the bodies generally, inter-dependencies on assurance between the bodies and issues directly affecting the DH Accounting Officer.

1.2 However, overall responsibility for matters considered by the Committee remains with the DH Board and Accounting Officer.

### **2. Membership**

2.1 The Committee shall comprise both senior managers from within Department of Health and non-executive members drawn from NHS, Social Care and independent bodies.

2.2 A quorum shall be two internal members and three non-executives.

2.3 The chair of the Committee shall be drawn from non-executive members.

2.4 The Committee may invite as non-members, the DH Accounting Officer, DH directors or Departmental sponsors of subordinate bodies. The Department's internal and external auditors shall normally attend.

### **3. Responsibilities**

3.1 The Committee fulfils its purpose through focus on three areas:

#### **3.1.1 DH internal control**

The Committee is the Audit Committee of the Department and advises the Accounting Officer on the quality of risk management, corporate governance and internal control within the Department. In order to do this the Committee shall :

- a. review 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. consider the audit strategy and audit plans;
- c. consider the Annual Report of the DH Head of Internal Audit to be submitted to the Accounting Officer;
- d. review internal audit performance;
- e. review issues arising from the summarised and resource accounts, including the external auditors' management letter to the Department and management's response to it;
- f. receive information on the implementation of significant audit recommendations agreed by DH management and monitor/advise on any non-implementation;
- g. consider the annual Statement of Internal Control to be signed by the DH Accounting Officer;
- h. receive the Department's conflict of interest policy and register.

#### **3.1.2 Cross-boundary issues affecting the DH Accounting Officer.**

The Committee shall satisfy itself and advise the Accounting Officer on the adequacy of accountability arrangements established to support him across the spectrum of his own accountability. To do this the Committee shall:

- a. receive information on the accountability and assurance arrangements linking the Accounting Officer to the accountable officers in all subordinate bodies;
- b. consider any deficiencies in these arrangements and the assurance information flows.

3.1.3 The Department's response to and implementation of recommendations made by external bodies.

The Committee shall advise the Accounting Officer on the adequacy of the Department's arrangements to monitor and act upon criticism/recommendations made by external bodies (including Public Accounts Committee hearings, National Audit Office, Audit Commission, Healthcare Commission, Commission for Social Care Inspection). To do this the Committee shall:

- a. receive information on major reviews reporting to Department of Health which contain recommendations to be implemented by or through the Department;
- b. understand the Department's arrangements to monitor and act upon recommendations, including the associated accountability arrangements;
- 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. The Audit Committee shall be a sub-committee of the Department's Board.

## **MEMBERSHIP**

**Chairman:** Mike Dallas (Non-executive)

### **Non-executive**

Chris Hurford	Associate Director, Audit Commission
Peter Mount	Chairman, Central Manchester and Manchester Children's University Hospitals NHS Trust
Clive Wilkinson	Chairman, Heart of England NHS Foundation Trust
Derek Myers (from October 2005)	Chief Executive, Royal Borough of Kensington and Chelsea
Julia Ross (to October 2005)	Director of Social Services, Barking & Dagenham

### **Executive**

Alan Doran	Project lead for Implementing the White Paper Team (from March 2006) interim Director General, Corporate Management
Richard Douglas	Director Finance and Investment

Hugh Taylor                      Group Director of Strategy & Business Development  
(from March 2006): acting Permanent Secretary

Stephen O'Brien                Director of Strategy  
(to February 2006)

#### **MEMBERS' ATTENDANCE AT MEETINGS 2005 - 06**

<b>Member</b>	<b>Meetings Attended</b>
Michael Dallas	4
Peter Mount	4
Hugh Taylor	4
Derek Myers	3
Chris Hurford	3
Alan Doran	2
Richard Douglas	2
Julia Ross	2
Stephen O'Brien	1
Clive Wilkinson	1

#### **Register of Interests**

<b>Member</b>	<b>Interest declared</b>
Michael Dallas	Retired partner in Price Waterhouse Coopers (no current involvements) Chairman of the Technical Advisory Group to the Audit Policy and Appointments Directorate of the Audit Commission
Peter Mount	Board member DFES Sector Skills Development Agency until September 2005 Chairman of the Central Manchester and Manchester Children's NHS Trust Chairman of the Trustees of Hospital charities Chairman and Trustee of NHS confederation Trustee of the National Association of Assistants in Surgical Practice Chairman of Trustees of the charity Helping Uganda Schools
Hugh Taylor	None
Derek Myers	None
Chris Hurford	None
Alan Doran	None
Richard Douglas	None
Julia Ross	Chairman of Mental After Care Association
Stephen O'Brien	None
Clive Wilkinson	None