



Department Of Health

Audit Committee

2007-08 Annual Report to the

Departmental Board

DEPARTMENT OF HEALTH AUDIT COMMITTEE

ANNUAL REPORT TO THE DEPARTMENTAL BOARD 2007- 08

1. The Department of Health's (DH) Audit Committee was constituted in its current form in 2002. Its purpose is to advise the DH Permanent Secretary and NHS Chief Executive on matters relating to risk management, corporate governance, internal controls and assurance relating to both DH and its subordinate bodies. Overall responsibility for matters the Committee considers remains with DH's Accounting Officers.
2. The Audit Committee's terms of reference are 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).
3. The Committee met five times during 2007-08. The Non Executives also met with the Director of Finance to review the draft 2006-07 DH Resource Accounts and NHS Summarised Accounts.
4. There were several changes to the Committee's membership during 2007-08:
 - two new non-executive members, Jane Ramsey and Tony Allen, joined the Committee in March 2007
 - Peter Mount retired from the Committee after the June 2007 meeting
 - Michael Hearty was appointed as a Non- Executive member of the Committee in September 2007
 - in line with new HM Treasury Guidance on Audit Committees published in 2007, the DH Audit Committee was reconstituted as a Committee with only Non-Executive members (5), with senior DH officials attending meetings.

Quality of risk management, corporate governance and internal control

5. We received regular reports on the Department's corporate governance arrangements, and its monitoring of and mitigation strategies for dealing with risks identified. We discussed these fully at each of our meetings. Early in 2007-08, we recommended that a shorter high-level risk register should be compiled on a category basis, and that a DH Risk Policy, developed in line with OGC Management of Risk Guidance (2007), should provide a Framework to support this. We emphasised that the register would need to be underpinned by more consistent and robust arrangements for the management of risks in Directorates, with appropriate escalation arrangements, and each risk on the register validated and cleared by the relevant Directors General.
6. We welcomed the progress the Department made on producing a much shorter and more focused high level risk register and the development of a DH Risk Policy (published on the Department's Intranet in February 2008) and the establishment of a Director Level Risk Forum. We suggested that an on screen e-learning tool could accompany the guidance and the Department should undertake a measurement of its risk culture in due course. We also suggested that next draft of the Risk Policy and Risk Management Guidance might benefit from links to the reform agenda, PSA delivery, and the role of Ministers in risk management and how DH policy relates to its management of its Arms Length Bodies (ALBs).
7. We received a presentation from the Director of Public Health on the risk of non-delivery of a key PSA target by 2010, to reduce health inequalities by 10% and the actions the Department was taking to mitigate this risk. We discussed issues about the risk being related to non-delivery of what was thought to be achievable, or to non-achievement of an aspirational target.
8. We received a report on the DH reviews on data handling procedures at the March 2008 meeting following the Cabinet Office (CO) Data Handling Review Team's request in January 2008 that Audit Committees should be given the opportunity to seek assurance that their organisations were properly managing information risk. We asked the Department if we should have serious concerns about information security on the basis of the reviews so far, but were assured that the Department had work in hand to address all the concerns raised. We also asked the Department to consider the level of assurance it would be looking for to inform the Statement of Internal Control (SIC), in respect of information security in the wider Department. The Department assured us that these points were being addressed as part of the Department's reviews being undertaken in response to the CO requirement to review data handling and protection policies, procedures, and the Committee looked forward to further reports during 2008-09.
9. We received updates at our September and November meetings on the appointments made to the DH Senior Structure. These included:
 - Alan Johnson's appointment as Secretary of State for Health, and an almost complete change to the DH Ministerial Team

- Alan Doran left the Department in September 2007 to take over as Interim Chief Executive at the Human Fertilization & Embryology Authority
- Richard Douglas' appointment as Director General for Finance & Chief Operating Officer which combined the Director General of Finance role with that of the Directorate previously managed by Alan Doran
- Fiona Adshead, the Deputy Chief Medical Officer's appointment to a new role for the Department and across Government as the Chief Adviser on Health Inequalities
- David Harper's appointment as Director General of Health Improvement and Protection

10. We received progress reports on work to reduce the number of retrospective purchase orders at the June and September meetings. The Department had achieved a reduction, in purchase orders being raised retrospectively after receipt of invoices, to 26% in August 2007 from a rate of over 75% earlier in the year. The Department was confident a target rate of reduction to 20% would be reached in 2007-8. We welcomed the improvement, which had been achieved and asked for a further update in 12 months.

11. We welcomed the opportunity to review a draft Memorandum of Understanding (MoU) between the Department of Health's Permanent Secretary and the NHS Chief Executive, in line with HMT requirement from Government Departments which had two Accounting Officers. We queried why there was no requirement in the draft for the Accounting Officer for RfR1 to cost new policies that had resource implications in the same way as the Accounting Officer for RfR2. The Director of Finance confirmed that this was an omission which should be rectified. We subsequently welcomed the finalisation of the MoU for endorsement by the Departmental Board in January 2008 and publication on the DH Intranet 'Delphi'.

12. We received the NAO's Management Letters for 2006-7 at the January 2008 meeting. The NAO stated that the 2006-7 DH Resource Accounts had improved both in quality and timeliness, with all DH's ALBs laying their accounts before the summer recess. We noted that the Director General for Finance and the Chief Operating Officer's view was that the ALBs had generally performed well and that the aim was to address the NAO's recommendations and secure any necessary improvements in the accounts for 2007-8 across all of DH's ALBs.

13. We received the draft Statement on Internal Control (SIC) for 2007-08 at the September 2007 meeting and approved the draft with recommendation that the SIC would benefit from the inclusion of an overall conclusion by the Principal Accounting Officer. We were pleased to note the addition of a conclusion in the final version of the SIC in the DH Resource Account for 2007-08.

Adequacy of accountability arrangements

14. We received reports from the Head of Assurance Strategy and Audit (ASA) at each Committee meeting, which provided us with an update on ASA's work. We discussed the issues such as:

- embedding risk management and control systems
- developing the capacity and capability of staff to discharge the necessary governance and control functions,
- the level of capacity of ASA to be resourced in 2008-9, in the context of the constraints on administration budgets across the Department, and
- we received a copy of ASA's 2006-07 Annual Report and Draft Assurance Statement at the June 2007 meeting.

15. We received updates from the NHS Director of Finance Performance and Operations throughout the year on the NHS financial position and noted (at our March 2008) meeting that, subject to audit, an NHS surplus of approximately £1.8 billion was projected for 2007/8.

Arrangements to monitor and act upon external bodies' recommendations

16. We received presentations on, and discussed the work of, external bodies contributing to the assurance and accountability arrangements:

- the 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 and ALBs' Accounts, the VFM Study of ALB Review and the Report on the Gershon efficiency programme. We asked for DH's assumptions about efficiency gains on the 2007 CSA to be shared. The key figures were a real terms increase in health spending of 4% per year taking total expenditure on the NHS to £110 billion by 2010-11; and increases in direct DH funding to social care of an average 2.3% real terms per year as well as an increase of 1% per year for the revenue grant to local authorities. The settlement confirmed that the Department would have to live with a 5% per annum real terms reduction in its Administration budget. The Department also received an increase in its allocation for capital spending. The efficiency assumption was 3%, a large element of which would be achieved through savings on procurement of purchase of pharmaceuticals, and through monitoring trends in pay expenditure against a counterfactual model.
- the NAO presented the Committee with the findings of its NAO Value For Money Study of the DH Arms Length Bodies (ALBs) Review at the January 2008 meeting. We noted that DH was on track to achieve all the targets to reduce the numbers of its ALBs and the

running costs – DH had saved £550m and reduced the number of its ALBs from 38 to 24 with a further reduction planned (subject to Primary Legislation) to get to 20 ALBs by the end of 2008-9. The Committee congratulated the Department on the implementation of the ALB Review, the success of which was evident from the NAO study.

- The NAO presented the Committee with its draft 2007-8 Audit Strategy for the DH Resource Account, NHS Summarised Accounts and the Whole of Government Accounts at the January 2008 meeting. We asked the Head of Governance to consider whether the Audit Committee should review the NHS Summarised Accounts and such a review has now been scheduled for November 2008. In relation to faster closing, we asked the Department to look at why it was not able to achieve laying of the DH Resource Account before Summer Parliamentary recess.
 - the Audit Commission presented to the Committee key issues arising from the 2006-07 Auditors' Local Evaluation (ALE) exercise. The Audit Commission reported that this was the second year that audited bodies had been subjected to an ALE Assessment. We noted that 31% of the NHS bodies failed to meet the minimum requirements but the Audit Commission expected to see an improvement in performance next year. We welcomed the signs of improvement in how NHS Trusts and PCTs manage and secure value for money.
 - the Committee received a joint presentation at its November meeting from the Healthcare Commission, the NAO, the Commission for Social Care Inspection (CSCI) and the Audit Commission on the impact of their organisations' previous years' reviews and studies. We raised concerns about the risk of the NAO and Healthcare Commission's 'end of life care' studies, planned for 2008-9, reporting on the same set of care providers and specialists which might result in duplication and unnecessary burden on stakeholders. The NAO agreed to work closely with the Healthcare Commission to avoid duplication where possible. We agreed that there should always be a focus on the quality and benefits of studies rather than the quantity of them and welcomed the Healthcare Commission's commitment to publish an impact evaluation of its work in 2008.
17. The Committee agreed, at the June 2007 meeting, that a more robust and comprehensive process needed to be put into place to follow up external audit recommendations and recommended that a central database should be established and maintained by the Audit Committee Secretariat to follow up external audit recommendations. The Committee noted at the September 2007 meeting that this had been done and covered NAO, PAC and Audit Commission reports. We welcomed this as a very good piece of organisational self discipline. The NAO indicated that they were not aware of similarly systematic arrangements being in place elsewhere in Whitehall.

Other issues

18. We received a paper on the NHS Counter Fraud Service (NHSCFS) 2006-7 Performance Figures at the June 2007 meeting. The Deputy Director of NHS Counter Fraud Security Management informed us that they had drawn on NAO's recommendations in producing the statistics. We asked NHSCFS to provide annual trend analysis so that it could be assured that NHSCFS was improving its performance year on year.
19. We received update reports on the Declarations of Interests by Senior Civil Servants (SCS) exercise throughout the year. We noted at the November 2007 meeting that the Department had a 100% return for all SCS staff in post, including inward secondees. We welcomed the excellent progress made.
20. We received an updated copy of the Department's Code of Business Conduct (including Declaration of Interest) at the November 2007 meeting and noted that this is available to staff on DH's Intranet.
21. We received regular updates on the Cabinet Office Capability Review of DH. We noted at the September 2007 meeting that the DH Development Plan (in response to Capability Review) was published on 12 September 2007. The Plan set out a two year programme of action which responds to the main areas for development identified in the Capability Review, and we expect to receive regular updates on progress.

Derek Myers
Chair, DH Audit Committee
June 2008

DH AUDIT COMMITTEE - Terms of Reference

1. Purpose

1.1 The purpose 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, and the DH Director General of Departmental Management. 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 DH Secretariat (Departmental Management Directorate) provides the secretariat to the Committee. The Secretary to the Committee is Stephen Mitchell (Head of Governance), supported by Santosh Dass and Deborah McCrory.

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). 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 Finance Director, the Director General of Departmental Management, 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 (DMB). The Chairman will formally report in writing to the DMB after each meeting of the Committee.

7.2 The Committee will provide the DMB 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.

MEMBERSHIP

Derek Myers	NEM and member of DH Management Board. Chief Executive, Kensington and Chelsea Council	Chair of the Audit Committee from September 2006. Current term to September 2009
Peter Mount	NEM – Chairman Central Manchester Hospitals Trust	Retired June 2007
Mike Wheeler	NEM and member of DH Management Board and the Finance and Investment Committee.	Joined the Audit Committee in June 2006 Current term to June 2009
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 to February 2011
Jane Ramsey	NEM Non- Executive director of University College Hospitals Foundation Trust	Joined the Audit Committee in January 2007 Current term to January 2011
Michael Hearty	NEM Finance Director Department for Children, Schools and Families	Joined the Committee in September 2007 Current term to end of August 2011

MEMBERS' ATTENDANCE AT MEETINGS 2007 – 08

Member	Meetings Attended
Derek Myers	5
Peter Mount	1

Mike Wheeler	5
Jane Ramsey	5
Tony Allen	4
Michael Hearty	3

Register of Interests

Member	Interest declared
Derek Myers	None
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
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