

DH AUDIT COMMITTEE: ANNUAL REPORT TO THE DEPARTMENTAL BOARD 2004-05

- 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 considered by the Committee 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 2004-05 (including the March meeting which was postponed and took place on 1 April 2005).

Quality of risk management, corporate governance and internal control

- 4 We received several reports throughout the year on the Department's monitoring of high level risk and the development of its corporate governance arrangements. We have requested that in future the Committee should receive a summary of the arrangements in place to mitigate risk along with the risk register. We noted at our March meeting that the governance arrangements then in place were sensible and represented an improvement on previous arrangements.
- 5 In November, we considered the Department's draft response to the Treasury's programme, "Improving government's risk handling strategy". We expressed some concern that the assessment of arrangements for managing risks with partners appeared overgenerous in view of the acknowledged variation in quality of assurance arrangements for arms length bodies. However, we received assurances that the arrangements with the vast majority of NHS bodies were very good and that those with arms length bodies were under consideration as part of the implementation of the arms length bodies review.
- 6 We considered the draft of the resource accounts that the Department submitted to the National Audit Office (NAO) for audit. We received assurances on a number of issues including: increases in stocks and provisions for clinical negligence, NHS trust deficits and brokerage, the treatment of the National Programme for IT's costs and central budgets. We noted a significant improvement in the Department's consideration of and management response to the recommendations in the NAO's memorandum of significant audit findings.

- 7 We reviewed and were content with a near final draft of the Accounting Officer's statement on internal controls for 2003-04.

Adequacy of accountability arrangements

- 8 We have monitored the work of Assurance and Internal Audit throughout the year and have received reports on the implementation of their recommendations.
- 9 We have overseen the changes to the Department's assurance and audit arrangements through regular progress reports on the procurement and subsequent introduction of the Department's new audit partner and the Committee Chair's and a non executive member's involvement in the selection process. We have advised that securing improvements in the assurance analysis function, the transparency of assurance processes and the avoidance of duplication of functions will be key objectives. We will be giving further consideration to how the proposed work programme matches the identified risk profile.

Arrangements to monitor and act upon external bodies' recommendations

- 10 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, their audit strategy for 2004-05 and their findings from a review of arms length bodies accounts, including the Department's formal responses. We noted the considerable improvement in the quality and timeliness in completion of the accounts, following our comments on this in earlier years.
 - The Audit Commission presented to the Committee its key findings on NHS stewardship and governance. We noted findings consistent with those of the NAO on improvement in quality of timeliness of accounts, but also concerns about financial management performance and capabilities at NHS trusts.
 - The Committee received tripartite presentations from the Healthcare Commission, the NAO and the Audit Commission on the bodies' statutory frameworks and joint work programme for 2005-06. We were encouraged that the bodies were working together to avoid duplication and undue demands on the NHS. We noted the early nature of the bodies' collaboration and that more collective programmes were envisaged in subsequent years. We commented that these should be closely aligned to NHS key risks.
 - The Counter Fraud and Security Management Service briefed us on the results of their work. We noted that the eventual availability of data on the overall extent of NHS fraud would increase the risk for qualification of the Department's accounts.

Other issues

- 11 We received a return maintained by the Department on losses and special payments and satisfied ourselves that the arrangements to maintain these were adequate.
- 12 The Committee held an awayday on 28 July 2004, to review how it had worked over the over the previous two years and consider how it can more effectively influence the effective achievement of the Department's business.

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

Mike Dallas (Chair)	NEM
Richard Douglas	Director Finance and Investment
Chris Hurford	NEM - Associate Director District Audit, Audit Commission
Peter Mount	NEM - Chairman Central Manchester Hospitals Trust
Julia Ross	NEM – Director Social Services Barking & Dagenham
Hugh Taylor	Group Director of Strategy & Business Development
Clive Wilkinson	NEM - Chairman Birmingham, Heartlands & Solihull NHS Trusts
 (to August 2004)	
Brian Booth	Non Executive Member (NEM) – Chair Preston Acute Hospitals NHS Trust
 (to Sept 2004)	
Sarah Mullally	Chief Nursing Officer

(to January 2005)

John Bacon

Group Director of Health & Social Care Delivery

MEMBERS' ATTENDANCE AT MEETINGS 2004 - 05

Member	Meetings Attended
Michael Dallas	4
Richard Douglas	4
Peter Mount	4
Clive Wilkinson	3
Chris Hurford	3
Hugh Taylor	3
Julia Ross	2
Brian Booth	2
John Bacon	1
Sarah Mullally	0