

Department of Health – Audit and Risk Committee
Annual Report
2010 - 11

DH & Risk Committee - Annual Report 2010 - 11

Role of the Audit & Risk Committee

1. The DH Audit Committee was constituted in its original form in 2002 and changed to the Audit and Risk Committee in February 2011. Its purpose is to advise the Department of Health's (DH) two Accounting Officers (the Permanent Secretary and NHS Chief Executive) and the Departmental Board on matters relating to risk management, corporate governance, internal controls and assurance relating to DH and all its subordinate bodies. Overall responsibility for matters the Committee considers remains with the Department's Accounting Officers.
2. The Audit Committee's terms of reference for this period are attached at Annex A and B, together with details of membership. The Committee fulfilled 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 and Care Quality Commission).

Membership

3. The composition of the Audit Committee during the financial year 2010 -11 was as follows:

Mike Wheeler	Non Executive Director and member of DH's Departmental Board	Joined the Audit Committee in June 2006 for a three year term which was extended to June 2011. Chair from August 2009.
Tony Allen	Non Executive Director.	Joined the Audit Committee in February 2007 to 7 February 2011. Term as non-executive director ended on 7 February 2011.
Jane Ramsey	Non Executive Director	Joined the Audit Committee in January 2007 for a three

		year term which was extended to 30 June 2012.
Michael Hearty	Non Executive Director	Joined the Committee in September 2007 for a 4 year term which was extended to 31 August 2014.
Jon Rouse	Non Executive Director and member of DH's Departmental Board	Joined the Committee in September 2009 for a three year term. Term ended through resignation on 15 October 2010.

Register of Interests

Member	Interest declared
Mike Wheeler	<ul style="list-style-type: none"> - Chair of the Audit committee of Dubai Holding LLP - Non-executive member of the Institute of Financial Services - Governor, Reed's School
Jane Ramsey	Non-executive Director of University College Hospitals Foundation Trust
Tony Allen	Non-executive Director of the Health and Social Care Information Centre and Chairman of its Audit Committee
Michael Hearty	Was the Acting Director General of Corporate Services Division, Department for Children, Schools and Families. Term ended on 22 August 2010.
Jon Rouse	<ul style="list-style-type: none"> - Chief Executive, Croydon Council - Chairman, Croydon Urban Regeneration Vehicle (CURV) - Trustee, of Fairfield Halls Ltd

Frequency of meetings

4. The Committee met seven times during 2010-11. There were four full meetings and three additional meetings to review the draft DH Resource Accounts and NHS Summarised Accounts.

Members' attendance at meetings 2010 – 11

Member	Meetings Attended	Meetings held during members term
Mike Wheeler	7	7
Jane Ramsey	6	7
Tony Allen	4	6
Michael Hearty	5	7
Jon Rouse	5	5

Audit & Risk Committee Business April 2010 – March 2011

5. The following account provides an overview of business conducted by the Audit Committee during the financial year 2010-11. The Committee's remit covered:

- 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:

- received, requested amendments and subsequently recommended sign-off of the Department's Resource Account 2009-10 (including a review of the draft Statement on Internal Control before its inclusion) and the NHS Summarised Accounts 2009-10.
- received the annual report on losses and special payments for 2009-10.
- discussed issues relating to the Department's element of the Whole of Government Accounts (WGA).
- reviewed the creation and maintenance of the Department's high level strategic risk register; providing direction and challenge on risk management processes where needed.
- received comprehensive updates from the Head of Internal Audit at each Committee meeting. This covered recently completed reports, Internal Audit's Assurance Plan, consultancy work and an assessment of the Department's corporate governance arrangements and mitigating strategies for dealing with recommendations and identified risks.
- received updates on the Value for Money Study Programme for 2011-12;

- received an update on developments over the last 12 months on the Department's policy and process on information security and data handling.
 - received the Procurement Assurance Action Plan and discussed implementation of the recommendations from the 2009-10 review of procurement.
 - reviewed arrangements for preventing fraud in the Department and the NHS.
 - received updates on the performance and financial position of the NHS by way of verbal reports on key matters at each Committee meeting.
7. The Committee received updates and kept abreast of all key issues and events within the Department of Health. This included policy developments following the general election and the formation of a new Government in May 2010, with a particular focus on the NHS and social care. In addition, following the production of a new protocol for central Government Departmental Boards, they discussed new governance arrangements. This led to the Audit Committee being reconstituted as an Audit and Risk Committee, and the Committee considered draft terms of reference for this new committee..

Adequacy of accountability arrangements

8. The Committee discussed the current DH arrangements to review and oversee ALB key risks and how these risks were escalated to the Department. The Committee were assured that risk management was covered in the ALB review.

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 regular updates on the follow up by the Department of recommendations agreed in reports by the NAO, Public Accounts Committee, Health Select Committee and Audit Commission.
 - received updates on the NAO VFM study programme for 2011-12.
 - received and discussed the NAO 2009-10 Management Letter on the Department's Resource Account and NHS Summarised Accounts and received assurance from the Department on actions it was taking to deal with issues identified.

Minutes and record of decisions

10. A note of actions agreed at each meeting was circulated to Audit Committee members and relevant DH officials within 48 hours of each meeting.
11. Meetings were minuted in full and these provided a clear record of decisions reached and matters discussed.
12. The Chair formally reported in writing to the Departmental Board the business discussed at Audit Committee meetings and the actions agreed after each meeting of the Committee. The Committee at its 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.

Mike Wheeler
Chairman,
DH Audit Committee
March 2012

DEPARTMENT OF HEALTH AUDIT AND RISK COMMITTEE¹

TERMS OF REFERENCE FROM FEBRUARY 2011

Purpose:

The role of the Audit & Risk Committee (the Committee) is to advise the Department of Health's Principal Accounting Officer and the Departmental Board on risk management, corporate governance and assurance arrangements in the Department of Health and its subordinate bodies.

Overall responsibility for matters considered by the Committee remains with the Principal and Additional Accounting Officers (the Accounting Officers) acting through the Departmental Board and Executive Board.

Reporting Arrangements

The Committee is a sub-committee of the Department of Health Board (DB) (see diagram below). The Chair will formally report in writing to the Principle Accounting Officer after each meeting of the Committee.

The Principal Accounting Officer or Chair of the Committee can submit issues to the Executive Board or Departmental Board as appropriate. At the request of either the Chair of the Committee or the Accounting Officers members of the Committee will attend relevant parts of Executive Board meetings to discuss matters arising.

The Committee will provide 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.

Functions

In order to fulfil its purpose, the Committee will consider:

- a. the DH strategic risk register,
- b. the audit strategies and audit plans of the DH's internal and external auditors;
- c. 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;

¹ 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).

- d. 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;
- e. the adequacy of management responses to issues identified by internal and external audit work,
- f. the annual Statement of Internal Control;
- g. the Department's Code of Business Conduct, in particular its policy on conflicts of interest, and its register of declared interests;
- h. any proposals for tendering for audit services, or for purchase of non-audit services from contractors who provide audit services;
- i. anti-fraud policies, whistle-blowing processes, and arrangements for special investigations; and
- j. the Audit & Risk Committee's own effectiveness

Accountability and Assurance

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 receive information on the accountability and assurance arrangements linking the Accounting Officer to the Accounting Officers and Accountable Officers in all subordinate bodies - and consider any deficiencies in these arrangements and the assurance information flows.

In respect of DH subordinate bodies, the Committee limits itself 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 Accounting Officers.

Recommendations made by external bodies

The Committee will advise the Accounting Officers 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

Membership

A minimum of three non-executive members.

The Committee members will decide exactly who attends for which parts of the meetings but it would be usual to expect the following people to be regularly involved in some/all of the meetings:

- the Principal Accounting Officer,
- the Additional Accounting Officer,
- the Director General of Finance ,
- the Head of Internal Audit, and
- the NAO Assistant Auditor General responsible for Health;

For the Committee to be quorate at least two members must be present.

Working methods

The Committee will meet at least four times a year. The Chair of the Committee may convene additional meetings as required.

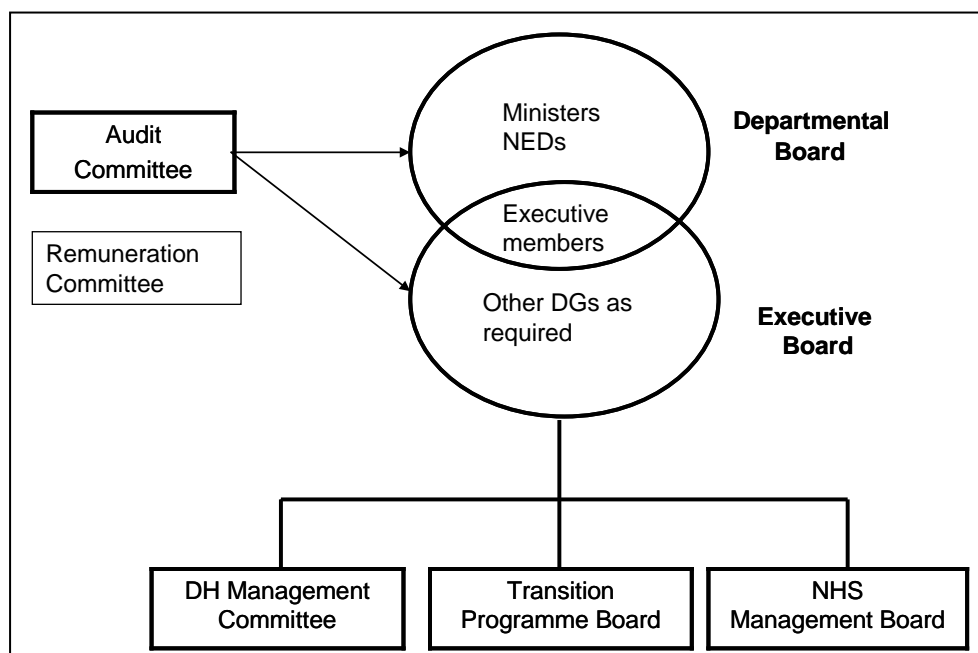
The Head of Internal Audit, and the Assistant Auditor General responsible for Health at the NAO, will have free and confidential access to the Chair of the Audit Committee. The Chair will meet bi-laterally with the Head of Internal Audit and senior representatives of the external auditors at least annually.

Papers

All papers for the Committee meetings will be circulated at least 5 working days in advance of meetings and in a form prescribed by the Committee.

Draft minutes of each meeting will be circulated within 5 working days for comment and will provide a clear record of decisions reached and actions agreed. Minutes will be formally approved at the subsequent meeting. The Secretariat will maintain an action log, which will be reviewed at each meeting.

12 August 2011



DH AUDIT COMMITTEE - Terms of Reference (until February 2011)

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:

- k. 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;
- l. the audit strategies and audit plans of the DH's internal and external auditors;
- m. the resourcing, activities and outcomes of the internal audit programme (Assurance, Strategy and Audit) work,
- n. the Annual Report of the DH Head of Internal Audit to be submitted to the Accounting Officer;
- o. 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;
- p. 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;
- q. 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;
- r. the annual Statement of Internal Control to be signed by the DH Accounting Officer;
- s. the Department's Code of Business Conduct, in particular its policy on conflicts of interest, and its register of declared interests;
- t. any proposals for tendering for audit services, or for purchase of non-audit services from contractors who provide audit services;
- u. anti-fraud policies, whistle-blowing processes, and arrangements for special investigations; and
- v. 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.