



Department
of Health

Department of Health Audit & Risk Committee Annual Report 2014 - 15

December 2015

Title: Department of Health – Audit & Risk Committee Annual Report 2014 - 15
Author: Group Operations – Information and Group Operations Directorate/14152
Document Purpose: Corporate Report
Publication date: September 2015
Target audience: Any interested parties
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Department of Health – Audit & Risk Committee Annual Report 2014 - 15

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Gerry Murphy
Chair, Audit and Risk Committee

The Audit and Risk Committee plays a key governance role in a large and complex system, advising on and ensuring that the Department of Health's assurance, risk management and financial reporting arrangements are robust. Within this, a key requirement of the Committee is to focus on the major issues, ensure they are being addressed and maintain perspective. I am pleased as Chair that the Department takes its responsibilities in this regard seriously. The papers and presentations we receive are of a high quality and enable the Committee members to appropriately challenge key judgements and plans to address the risks identified.

Good governance and risk management require both robust processes and an open culture. This is especially important given that many of the Department's Arms Length Bodies have their own governance structures. The Committee has continued to focus on the Department's relationships with its ALBs and the flow of information to understand how risks are identified and managed. I am pleased with the rigour by which this is approached and how it is being taken forward.

I am grateful for the assistance and challenge provided by fellow members of the Committee, the support provided by its Secretariat, and the consistent and constructive input from the National Audit Office and the Department's Internal Audit team throughout the year. Finally, I would like to thank my predecessor, Mike Wheeler, for his assiduous leadership during his many years as Chair.

Role of the Audit & Risk Committee

1. The Audit and Risk Committee's purpose is to advise the Department of Health's Principal Accounting Officer and the Departmental Board on financial and risk management, corporate governance, and assurance arrangements in the Department of Health and its constituent bodies. The Audit and Risk Committee's terms of reference are attached at Annex A, together with details of membership. This report provides confirmation that the terms of reference have been fulfilled.
2. Overall responsibility for matters considered by the Committee remains with the Principal Accounting Officer acting through the Departmental Board and Executive Committee .
3. To fulfil its purpose, the Audit and Risk Committee considered the following issues (amongst others):
 - a) the accounts and annual report of the Department, including reviewing the accounts, annual report and governance statement before submission for audit, together with any issues arising from the audit of the accounts;
 - b) the quality of risk management within the Department, together with regular review of the Department's High Level Risk Register;
 - c) the accountability arrangements established to support the Accounting Officer;
 - d) the adequacy of the Department's arrangements to monitor and act upon the findings and recommendations of external audit and scrutiny bodies (such as the Public Accounts Committee or the National Audit Office).

Membership

4. The composition of the Audit and Risk Committee during the financial year 2014 -15 was as follows:

Mike Wheeler	Non-Executive Chair of the Audit and Risk Committee and Non-Executive Member of the Departmental Board	Joined the Audit and Risk Committee in June 2006 for a three year term; membership subsequently extended to June 2011 and again to December 2014. Chair from August 2009 – December 2014.
Gerry Murphy	Non-Executive Chair of the Audit and Risk Committee and Non-Executive Member of	Joined the Departmental Board and Audit and Risk Committee in September 2014. Chair of Audit and Risk Committee from 1

	the Departmental Board	January 2015.
Jacqueline Burke	Non-Executive Member	Joined the Audit and Risk Committee in September 2013 for a three year term to August 2016.
Michael Hearty	Non-Executive Member	Joined the Audit and Risk Committee in September 2007 for a four year term; membership subsequently extended to August 2014.

Register of Interests

5. Members of the Committee declared the following interests:

Member	Interest declared
Mike Wheeler	<ul style="list-style-type: none"> • Chair of the Audit Committee of Dubai Holding LLP • Governor, Reed's School • Non-Executive Director of Citadel Securities (Europe)Ltd • Consultant to Glitnir Bank • Chair of Rodador Capital Limited
Gerry Murphy	<ul style="list-style-type: none"> • Non-Executive Director of Dixons Carphone plc • Non Executive Director of Capital & Counties Properties PLC
Jacqueline Burke	<ul style="list-style-type: none"> • Non Executive Director and Chair of the Audit Committee for the Royal Surrey County Hospital NHS Foundation Trust • Independent member of the Audit Committee of the Arts and Humanities Research Council • Independent member of the Audit Committee of the British Academy
Michael Hearty	<ul style="list-style-type: none"> • No interests declared

Frequency of meetings

6. The Committee met six times during 2013-14. There were four full meetings and an additional two meetings to review the draft DH Resource Accounts.
7. Committee members also held four teleconferences (in the months when no meetings were being held) to discuss urgent matters and remain abreast of issues.

Members' attendance at meetings 2014–15

8. During 2014-15, attendance at Committee meetings was as follows (this does not include the additional teleconferences):

Member	Meetings Attended	Meetings held during members term
Mike Wheeler	5	5
Gerry Murphy	3	3
Jacqueline Burke	6	6
Michael Hearty	3	3

Audit and Risk Committee Business April 2014 – March 2015

9. The following account provides an overview of business conducted by the Audit and Risk Committee during the financial year 2014-15.

Review of the Accounts

10. In discharging its responsibilities, the Committee:
- received, requested amendments to, and subsequently recommended sign-off of the Department's Annual Report and Accounts for 2013-14. This included a review of the draft Governance Statement;
 - received and discussed the annual report on losses and special payments for 2013-14;
 - received the Whole of Government Accounts for 2013-14;
 - received regular updates on progress with the ISA260 Report from the National Audit Office, and discussed its content. It monitored progress on implementation of the previous year's recommendations;
 - discussed the planning and timetable for the 2014-15 accounts;
 - subsequently to the year end the Committee recommended sign-off of the Department's Annual Report and Accounts for 2014-15.

Risk Management and Corporate Governance

11. To fulfil this remit, the Committee:
- received comprehensive updates from the Head of Internal Audit (IA) at each Committee meeting. This covered recently completed reports, the DH Audit Plan for 2014-15, Internal Audit's Assurance Report 2013-14, a summary of the implementation of recommendations, and reports on Internal Audit's performance and quality, and customer satisfaction. The Committee also had a more in-depth look at

the most significant Internal Audit reviews, such as the ACCEA Business, Information and Financial Systems Review;

- reviewed the processes used in the creation and maintenance of the Department's High Level Risk Register, along with scrutiny of the High Level Risk Register itself, providing direction and challenge when needed. This included discussions with officials on how to better reflect the residual RAG rating of a risk after mitigating actions have been taken, as this could be seen as indicative of the Department's risk appetite;
- invited a Director Sponsor of one of the Department's executive agencies or arms' length bodies to each Committee meeting to discuss the strategic and operational risks of the national body, the management of those risks, and the role of the Department in overseeing this. Those covered during 2014-15 were NHS England, the Medicines and Healthcare products Regulatory Agency, and the NHS Business Services Authority;
- discussed the governance arrangements for NHS Property Services Ltd, including the process for the identification, escalation and management of its risks;
- received a presentation from the NHS Litigation Authority on the current position of clinical negligence claims in England;
- discussed the robustness of the mechanisms in place to capture and manage shared risks across the DH Group;
- discussed cyber risk management arrangements within the Department and its executive agencies and arms' length bodies, and in the wider health and care system;
- reviewed the actions taken by the Department to ensure that the financial information provided by ALBs was sufficiently robust to provide assurance to the Principle Accounting Officer;
- discussed the operation of the failure regime for distressed and failing trusts, and the systems available to support and manage unsustainable providers;
- discussed the DH Group's fraud strategy and anti-fraud activity across the NHS, including prescription charges fraud and fraud committed by dentists. The Committee received an update on the fraud strategy at each quarterly meeting thereafter;
- discussed the Prime Minister / Deputy Prime Minister and Secretary of State delivery commitments due in 2014/15 and the arrangements to assure their delivery;
- discussed the MacPherson Review into quality assurance of analytical models and reviewed the residual risks relating to the models, the arrangements for actively managing those risks; and the robustness of the quality assurance processes put in place;
- discussed progress of the Major Projects Governance Review;

- discussed progress on the Better Care Fund plans, and the support mechanisms put in place to improve the plans for those Health and Wellbeing Board areas having difficulties;
- reviewed the Department of Health's Board member responsibilities in relation to the Corporate Manslaughter and Corporate Homicide Act 2007, particularly those of the non-Executive Directors, to ensure that the Department was fully compliant with health and safety legislation, and could demonstrate good practice;
- reviewed the NAO Audit Planning Report;
- reviewed the NAO draft Group Instructions;
- endorsed the Department of Health's Security Risk Management Overview (SRMO) Report for 2013-14;
- participated in cyber security training provided by the National Archives;
- participated in October in an event (hosted by the Department and chaired by Mike Wheeler) to bring together the audit chairs of the Department's executive agencies and arms' length bodies to discuss issues of common interest.

Arrangements to monitor and act upon external bodies' recommendations

12. The Committee also:
- received reports on the follow up by the Department of recommendations agreed in external reports by the National Audit Office and Public Accounts Committee.
 - received updates on the National Audit Office's Value for Money study programme.

Minutes and record of decisions

13. A note of actions agreed at each meeting was circulated to Committee members and relevant DH officials. Full minutes of each Committee meeting were prepared and agreed at a subsequent meeting. These provided a clear record of decisions reached and matters discussed.
14. The Chairman also formally reported in writing to the Departmental Board each quarter the key points of business discussed at Audit and Risk Committee meetings and any notable actions agreed by the Committee.

Gerry Murphy

Chair

Department of Health Audit and Risk Committee

September 2015

DEPARTMENT OF HEALTH AUDIT AND RISK COMMITTEE¹**TERMS OF REFERENCE****Purpose:**

The role of the Audit and Risk Committee (the Committee) is to advise the Department of Health's Principal Accounting Officer and the Departmental Board on financial and 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 Accounting Officer (the Accounting Officer) acting through the Departmental Board and Executive Board.

Reporting Arrangements

The Committee is a sub-committee of the Department of Health Departmental Board (DB). The Chair will formally report in writing to the Principal Accounting Officer to each performance meeting of the Departmental Board, on a quarterly basis.

The Principal Accounting Officer or Chair of the Committee can submit issues to the Executive Committee or Departmental Board as appropriate. At the request of either the Chair of the Committee or the Accounting Officer members of the Committee will attend relevant parts of Executive Committee 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 Governance Statement. The annual report will summarise 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 quality of risk management within the Department, together with the DH high level risk register;
- b. 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;
- c. the audit strategies and audit plans of the DH's internal and external auditors;

¹ The Committee is constituted to comply fully with the requirements set out in the HM Treasury guidance "Audit and Risk Assurance Committee Handbook" (2013).

- d. the issues arising from the DH Group 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 Governance Statement;
- 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 and Risk Committee's own effectiveness.

Accountability and Assurance

The Committee is required to satisfy itself, and advise the Accounting Officer 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 Governance Statement, and to inter-dependencies on assurance between subordinate bodies and matters under the direct control of the Accounting Officer.

Recommendations made by external bodies

The Committee will advise the 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, Care Quality Commission).

Membership

A minimum of three non-executive members. The Chair of the Audit and Risk Committee will also be a member of the Departmental Board.

The Committee members will decide exactly who attends for which parts of the meetings but it would be usual to expect the following officials to be regularly involved in each formal meeting (whether in whole or in part):

- the Principal Accounting Officer;
- the Director General with responsibility for finance;
- the Director General with responsibility for risk management and corporate governance;

- 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 four times a year in February, May, September and November. Additional meetings are generally arranged in the spring and summer to consider the accounts and annual report in detail, and to agree sign-off by the Principal Accounting Officer. The Chair of the Committee may convene further meetings when there is relevant business to discuss.

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

The Board Secretariat will support the Board. The Secretariat will arrange the forward agenda, with the final decision being taken by the Chair. 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.

The Secretariat will take accurate minutes that are kept for the record. 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.

Interests

Audit and Risk Committee members are required to declare any interests which may, or may be perceived to, influence their judgement upon appointment and at any time afterwards if it arises. They are expected to withdraw from discussion in which they have any interest which may, or may be perceived to, influence their judgement.

Audit and Risk Committee members' interest are published in the Committee's annual report.