

## **DH AUDIT COMMITTEE: ANNUAL REPORT TO THE DEPARTMENTAL BOARD 2006-07**

1. The DH Audit Committee was constituted in its current form in 2002. Its purpose is to advise the Permanent Secretary and Chief Executive on matters relating to risk management, corporate governance, internal controls and assurance relating to both DH and all the DH subordinate bodies. Overall responsibility for matters the Committee considers remains with the Accounting Officers.
2. The Audit Committee's terms of reference are annexed, together with its membership. The Committee fulfils its remit through focusing on three areas:
  - advising the Accounting Officers on the quality of risk management, corporate governance and internal control within the Department
  - satisfying itself and advising the Accounting Officers on the adequacy of accountability arrangements established to support them across the spectrum of their accountabilities.
  - 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 four times during 2006-07. The Non Executives also met with the Director of Finance to review the draft DH Resource Accounts and NHS Summarised Accounts.
4. There were several changes to the Committee's membership during 2006-07:
  - Chris Hurford resigned from the Committee in August 2006
  - Mike Dallas and Clive Wilkinson retired in October 2006
  - Derek Myers took over as Chair at the January 07 meeting
  - Mike Wheeler was appointed as a non- executive member of the Committee, the Departmental Management Board and the Finance and Investment Committee in June 2006
  - Two new non-executive members, Jane Ramsey and Tony Allen, joined the Committee in March 07
  - Peter Mount's retired from the Committee after the May 2007 meeting, and a successor is in the process of being appointed
  - In line with new HM Treasury Guidance on Audit Committees published in 2007, the DH Audit Committee will be reconstituted as a Committee with only non-executive members (5), and with senior officials attending

### **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 risk. We recommended that the high-level risk register should include both pre and post-mitigation ratings for the likelihood and impact of key risks to DH and its policy and expenditure programme. Also that the register should identify ownership of risks at Director General level, and the sub-committee of the Board responsible for oversight of each risk. We concluded that while

overall the register looked balanced, there were some areas of the Departments business that had not been included. The Department has informed us that it will be using the Business Planning Process to identify business risks at directorate level, as the basis for comprehensive coverage of key risks in the high-level risk register for the Departmental Board.

6. We concluded that the Departmental Management Board should clarify the criteria for inclusion on the register, review whether sufficient attention was paid to reputational risks, review the robustness of plans to deliver better clinical engagement as an important mitigating action for a number of risks, and consider how to get 'earlier warning' of things that might go wrong.
7. We received updates at our June and September meetings on the recruitments/appointments made to the DH senior structure:
  - Hugh Taylor was appointed Permanent Secretary
  - David Nicholson was appointed NHS Chief Executive
  - David Behan had taken up post as Director General of Social Care
  - Clare Chapman was appointed Director General of Workforce
  - Andrew Cash had taken up post as Director of Provider Development
  - Duncan Selbie was appointed as Director General Commissioning
8. We received NAO's final version of its Pre Certification Report on the DH Resource Accounts 2005-06 at the January 07 meeting.
9. We received the NAO Management Letters for 2005/6 at the March 2007 meeting. The NAO highlighted issues about the presentation of the accounts, the timing of their production, PFI accounting, procurement and the timing of the implementation of recommendations made in the letters. We noted that the Department has already started work to improve the production and presentation of the DH Resource Accounts and to tackle the underlying issues that impact on accounts preparation.
10. We received the draft Statement on Internal Control (SIC) at the September 2006 meeting. We suggested there should be a reference in the SIC to the capital underspend issues in the NHS, and to the criticisms of the Department from the Commission for Racial Equality. These were taken on board by the Principal Accounting Officer in the final version of the SIC.

### **Adequacy of accountability arrangements**

11. We received reports from the Head of Assurance Strategy and Audit (ASA) throughout the year updating us on ASA's work. We considered whether the ASA work plan should be more closely aligned with the risks on the high level risk register for the Department.
12. We discussed issues about the level of capacity of ASA to be resourced in 2007/8, in the context of the constraints on administration budgets across the Department. and we received a review of ASA by the NAO at the March 2007 meeting. We asked Hugh Taylor as Principal Accounting Officer to satisfy himself on the sufficiency of resources for assurance, in the context of other budget priorities.
13. We received updates from the Director of Finance throughout the year on the NHS financial position and noted (at our June 2007) meeting that, subject to audit, there was an overall surplus of approximately £500m against a break-even target. The gross deficit was £900m against the previous year's figure of £1.3bn, and the percentage of organisations recording a deficit had fallen from 33% to 22%. The

Committee recognised that there is still a lot of work to do to drive the gross overall deficit down, and to reduce the number of organisations in deficit to under 10%.

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

14. 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 and Arms Length Bodies' Accounts. We queried the timetable to implement the recommendations made. The Department agreed to implement them sooner. We asked for a report on how the Department was going to address the issues that arose about the preparation and presentation of the Accounts.
  - The Audit Commission presented to the Committee the key issues arising from the 2005/06 Auditors' Local Evaluation (ALE) exercise. The Audit Commission reported that it would like to move the ALE from a process focus to an outcome focus over time.
  - The Committee received a joint presentation at its March meeting from the Healthcare Commission, the National Audit Office (NAO), the Commission for Social Care Inspection (CSCI) and the Audit Commission on their planned individual organisational work programmes and planned joint studies. In previous years, the Committee had challenged these organisations about the lack of co-ordination of, and joint working on, reviews. The Committee suggested that the organisations might consider being more radical in their approach to joint working and using more shared data.
  - In order that the Committee could play its part in ensuring the Department acted on the lessons from this regulatory work, the Committee made it clear it wanted more emphasis put on the benefits flowing from this investment. The regulators were asked to consider again their past work, trying to measure the impact on the delivered service, and make a further presentation to the Autumn meeting of the Committee.
  - The Committee received a presentation from the Director General for the NHS IT programme on the governance structure, controls and delivery of the National Programme for IT (NpFIT). The programme, which was established in 2002, was the first major programme to go through the full range of OGC Gateway reviews and had also been the subject of an NAO VFM study and a Public Accounts Committee. The Committee discussed issues about improving the commitment of IT system users to the NpFIT systems, of which the PACS system for digital image transfer was highlighted as particularly successful, and about broader engagement of NHS professionals, particularly that of GPs with the Choose and Book systems.
  - The Committee recommended that a more robust and comprehensive process needed to be put into place to follow up external audit recommendations. The Committee agreed that it wished to see the results of the follow up regularly. It recommended that the Department set up and maintain an external recommendations database, and follow up with DH directorates the implementation of recommendations.

### **Other issues**

15. We received a report at the September meeting from the Director of NHS Counter Fraud Security Management. The profile of NHS expenditure being covered by CFSMS is rising from 40% to 75% over 18 months. The Committee explored the

processes for making and following up recommendations on issues of national significance, and how the financial benefits from CFSMS' work were measured

16. We have received update reports on the declarations of interest exercise throughout the year. We have continued to challenge officials to ensure records are kept up to date.
17. The Department kept us informed of the measures it was taking to prepare for the Capability Review in April / May 2007.
18. The Committee reviewed the Department's analysis of the past overspending issues across the NHS, and noted the possible effects of discontinuity of staff at a senior level in particularly PCT and SHA ranks .The Committee invited David Nicholson to consider more formal monitoring of such workforce stability.
19. The Committee sought assurances over the personal targets set for Finance Directors to support improvement in audited scores for PCT performance.

**Derek Myers**

**Chair of the Audit Committee**

**June 2007**

## **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<br>(Chair) | NEM  | Retired after the September 2006 meeting         |
| Derek Myers            | NEM and member of DH Department Board.<br>CE Kensington and Chelsea Council                                | Chair of the Audit Committee from September 2006 |
| Chris Hurford          | NEM – Associate Director District Audit, Audit Commission  | Retired June 2006                                |
| Peter Mount            | NEM – Chairman Central Manchester Hospitals Trust  | Retired June 2007                                |
| Clive Wilkinson        | NEM - Chairman Birmingham, Heartlands & Solihull NHS Trusts  | Retired October 2006                             |
| Mike Wheeler           | NEM and member of DH Management Board. and the Finance and Investment Committee<br>Retired Global managing | Joined the Audit committee in June 2006          |

partner FAS – KPMG

|                 |   |  |
|-----------------|---|--|
| Tony Allen      | NEM<br>A non executive Director of the Health and Social Care Information Centre and Chairman of their Audit Committee. | Joined the Audit Committee in February 2007  |
| Jane Ramsey     | NEM<br>Non- Executive director of University College Hospital Board   | Joined the Audit Committee in February 2007  |
| Richard Douglas | Director General Finance and Investment   |  |
| Alan Doran      | Director General for Departmental Management  |  |
| Hugh Taylor     | Permanent Secretary and Accounting Officer  |  |
| David Nicholson | NHS Chief Executive and Additional Accounting Officer   | Joined the Audit Committee in September 2006 |

#### MEMBERS' ATTENDANCE AT MEETINGS 2006 - 07

| Member          | Meetings Attended |
|-----------------|-------------------|
| Michael Dallas  | 2                 |
| Derek Myers     | 4                 |
| Peter Mount     | 4                 |
| Clive Wilkinson | 2                 |
| Mike Wheeler    | 4                 |
| Jane Ramsey     | 1                 |
| Tony Allen      | 1                 |
| Hugh Taylor     | 4                 |
| Chris Hurford   | 0                 |
| Alan Doran      | 4                 |
| Richard Douglas | 4                 |
| David Nicholson | 2                 |

#### Register of Interests

| Member         | Interest declared  |
|----------------|--|
| Michael Dallas | Retired partner in Price Waterhouse Coopers (no current involvements)<br>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<br>Chairman of the Central Manchester and Manchester Children's NHS Trust  |

|                 |  |
|-----------------|--|
|                 | <p>Chairman of the Trustees of Hospital charities<br/> Chairman and Trustee of NHS confederation<br/> Trustee of the National Association of Assistants in Surgical Practice<br/> Chairman of Trustees of the charity Helping Uganda Schools</p> |
| Hugh Taylor     | None   |
| Derek Myers     | None   |
| Chris Hurford   | None   |
| Alan Doran      | None   |
| Richard Douglas | None   |
| Mike Wheeler    | <p>Non-executive member of the Audit committee of Dubai Holdings<br/> Senior Adviser to Close Brothers Corporate Finance<br/> Senior Adviser to BDO Stoy Hayward<br/> Non-executive member of the Institute of Financial Services</p>            |
| Jane Ramsey     | <p>Non-executive Director of University College London Hospitals Foundation Trust<br/> Lay Member of the Royal Pharmaceutical Society of Great Britain</p>   |
| Tony Allen      | None   |
| Clive Wilkinson | None   |