



THE STATE HOSPITALS BOARD FOR SCOTLAND

AUDIT COMMITTEE ANNUAL REPORT

1 April 2020 – 31 March 2021

1 INTRODUCTION

The Report is submitted to meet the requirements within the Audit Committee's (the Committee's) Terms of Reference to submit an annual report of the work of the Committee. The report also seeks to satisfy the Governance Statement requirement for the Committee to provide periodic reports to the Board in respect of Internal Control.

2 MEMBERSHIP AND ROLE OF THE COMMITTEE

Audit Committee

Membership

D McConnell (Chair to 31 December 2020)
B Moore (Chair from 1 January 2021)
W Brackenridge (to 31 January 2021)
T Hair
P Radage (from 15 January 2021)
S Currie (from 4 February 2021)

Role

To oversee arrangements for external and internal audit of the Board's financial and management systems and to advise the Board on the strategic processes for risk, control & governance. It met 5 times during 2020/21.

3 AUDIT

External audit coverage of the Board was provided by Azets.

The Internal Audit service was provided by RSM UK.

4 REVIEW OF THE WORK OF THE COMMITTEE

The Internal Audit Operational Plan from RSM for 20/21 was approved by the Committee at its meeting on 26 March 2020. The plan was kept under review for the remainder of the year.

The plan was designed to target priority issues and structures to allow the Chief Internal Auditor to provide an opinion on the adequacy and effectiveness of internal controls to the Committee, the Chief Executive (as Accountable Officer) and the External Auditors.

During financial year 2020/21, the Committee met on FIVE occasions: 18 June 2020, 2 July 2020, 8 October 2020, 21 January 2021 and 25 March 2021.

During the period from 31 March 2020 and up to the consideration of the Annual Financial Statements on 17 June 2021, the committee has:

- Received progress reports from the Chief Internal Auditors against the Internal Audit Plans approved by the Committee
- Reviewed audit reports and action plans
- Reviewed progress on action taken by management on action plans
- Reviewed the final Annual Report for 2020/21 from the Chief Internal Auditor
- Received the Annual Report and audit certificate for the 2020/21 audit from Azets
- Reviewed the Standing Financial Instructions, Standing Orders and Scheme of Delegation, and recommended these for approval to the Board
- Reviewed its Terms of Reference
- Review the log of waivers of standing financial instructions.
- Considered the Fraud Incident Log
- Reviewed Counter Fraud Service Alerts
- Reviewed Fraud Action Plan
- Reviewed progress made with the National Fraud Initiative
- Received national Audit Scotland reports and performance audit studies, relating to the Health Service and to the wider public sector
- Met in private with Internal and External Auditors

- Reviewed the recommendations received from National Services Scotland from their service audit reports.
- Reviewed the recommendations received from NHS Ayrshire & Arran from the service audit report on the National Single Instance (NSI) system
- Reviewed the annual reports from the Governance Committees
- Reviewed the Code of Conduct
- Reviewed and approved the Annual Audit Committee Assurance Statement to the Board
- Reviewed the summary of Losses and Special Payments
- Reviewed and approved the Losses and Special Payment Policy
- Reviewed and approved the Patients Funds Annual Accounts for submission to the Board
- Reviewed and recommended approval of the statutory Annual Accounts to the Board
- Submitted minutes of meetings to the Board throughout the year
- Reviewed external Audit Plan
- Reviewed and noted update on Business Continuity Resilience arrangements
- Reviewed the annual report on Risk Management
- Endorsed the Risk Management Strategy
- Received updates from the Human Resources Director in relation to the progress on the Sickness Absence audit report.
- Reviewed and noted the Procurement Strategy and Annual Report
- Reviewed and noted the Corporate Risk Register
- Review and agreed Audit Committee Work Plan 2021
- Reviewed and noted the Policy Management Update
- Received the minutes of the Risk, Finance and Performance Group, now the Finance, eHealth and Audit Group
- Received the minutes of the Security, Risk and Resilience and Health and Safety Group
- Received a verbal update on the Draft Operational Plan
- Reviewed Category 1 and 2 Annual Update on Outstanding Actions

5 CORPORATE GOVERNANCE

During 2020/21 the Board's Internal Auditors reported on the following significant areas of work:

- Accounts Payable
- Clinical Observations
- Critical Planning and Business Continuity
- Job Evaluation
- Board Pack Quality Assessment
- Sickness Absence Trends and Patterns
- Recording of Time to SSTS

Implementation of New Clinical Model audit was moved to 2021/22 reporting period.

6 CONCLUSION

Based on the work that it has undertaken, the Committee has met in line with the Terms of Reference, has fulfilled its remit and is satisfied that internal controls are adequate to ensure that the Board can achieve the policies, aims and objectives set by Scottish Ministers, to safeguard public funds and assets available to the Board, and to manage resources efficiently, effectively and economically.

I offer my thanks for the continuing support and encouragement of Committee members and also to those members of staff who have worked on the Committee's behalf during 2020/21.

Brian Moore

AUDIT COMMITTEE CHAIR

On behalf of the State Hospitals Board for Scotland Audit Committee

THE STATE HOSPITALS BOARD FOR SCOTLAND AUDIT COMMITTEE

TERMS OF REFERENCE

1 PURPOSE

The Audit Committee is a standing committee of the Board and shall be accountable to the Board. Its purpose is to provide the Board with assurance in respect of risk, governance and internal control including financial control.

2 COMPOSITION

2.1 Membership

The Audit Committee is appointed by the Board and shall be composed of at least three Non-executive Board members, one of whom shall act as Chair. Membership will be reviewed annually and disclosed in the Annual Report.

2.2 Appointment of Chairperson

The Chairperson of the Committee shall be appointed at meeting of the Board in accordance with Standing Orders.

2.3 Attendance

Executive Directors of the Board are not eligible for membership of the Committee. The Accountable Officer (Chief Executive), Finance and Performance Management Director, Chief Internal Auditor, a representative from External Audit and any other appropriate officials shall normally attend meetings and receive all relevant papers. Other Directors may also be invited by the Chair of the Committee to attend meetings as required.

All Board Members will have the right to attend meetings and have access to all papers, except where the committee resolves otherwise.

Audit Committee members must regularly attend the Committee and if not appropriate action taken.

3 MEETINGS

3.1 Frequency

The Audit Committee will meet at least four times a year to fulfil its remit and shall report to the Board at least twice in each financial year.

The Chair of the Committee may convene additional meetings as necessary.

The accountable officer should attend all meetings but if he/she does not, be provided with a record of the discussions.

The Accountable Officer of the Board may ask the Chair of the Committee to convene further meetings to discuss particular issues on which they want the Committee's advice.

3.2 Agenda and Papers

The agenda and supporting papers will be sent out at least five working days in advance of the meetings to allow time for members' due consideration of issues. All papers will clearly state the agenda reference, the author and the purpose of the paper, together with the action to be taken.

3.3 Quorum

Two members of the Committee will constitute a quorum.

3.4 Minutes

Formal minutes will be kept of the proceedings and submitted for approval at the next Audit Committee meeting, and prior to submission to the Board.

4 OTHER

In order to fulfil its remit, the Audit Committee may obtain whatever professional advice it requires and invite, if necessary, external experts and relevant members of hospital staff to attend meetings.

If necessary, meetings of the Committee shall be convened and attended exclusively by members of the Committee and / or the External Auditor or Internal Auditor. It is expected that this should occur at least once in each financial year.

The Chief Internal Auditor and the representative(s) of External Audit will have free and confidential access to the Chair of the Committee.

The Chair of the Audit Committee should be available at the Board's Annual Accounts Approval Meeting to answer questions about its work.

5 REMIT

5.1 Objectives

The main objectives of the Audit Committee are to provide the Board with the assurance that the State Hospital acts within the law, regulations and code of conduct applicable to it, and that an effective system of internal control is maintained.

The committee periodically assesses its own effectiveness to ensure that the Audit Committee fulfils its remit, this may involve assessing the attendance and performance of each member.

New members receive a suitable induction and declare his/ her business interests.

The duties of the Audit Committee are in accordance with the Audit Committee Handbook, July 2008. <http://www.scotland.gov.uk/Publications/2008/08/08140346/>

5.2 Internal Control and Corporate Governance

5.2.1 To evaluate the framework of internal control and corporate governance comprising the following components:

- Control environment; Risk management strategy, procedures and risk register;
- The effectiveness of the internal control and risk managements systems
- Decision-making processes;
- Receive and consider stewardships reports in key business areas.
- Information;
- Monitoring and corrective action

5.2.2 To review the system of internal financial control which includes:

The safeguarding of assets against unauthorised use and disposition;

- Maintenance of proper accounting records and
- the reliability of financial information used within the organisation or for publication.

5.2.3 To have a mechanism to keep it aware of topical legal and regulatory issues and ensure the Board's activities are within the law and regulations governing the NHS.

5.2.4 To monitor performance and best value by reviewing the economy, efficiency and effectiveness of operations.

5.2.5 To present an annual assurance statement on the above to the Board to support the Directors' Governance Statement on Internal Control.

5.2.6 To take account of the implications of publications detailing best audit practice.

5.2.7 To take account of recommendations contained in the relevant reports of the Auditor General and the Scottish Parliament.

5.2.8 To review audit reports and management action plans in relation to physical security of the Hospital.

5.2.9 To provide assurance to the Board that plans are in place to ensure service continuity and to provide contingencies for emergency situations.

5.2.10 To provide assurance to the Board that plans and mechanisms are in place to ensure that Fraud is properly monitored and reported.

5.3 Internal Audit

- 5.3.1 To review and approve the Internal Audit Annual Plan.
- 5.3.2 To review the adequacy of internal audit staffing and other resources.
- 5.3.3 To monitor audit progress and review audit reports.
- 5.3.4 To monitor the management action taken in response to the audit recommendations through an agreed follow-up mechanism.
- 5.3.5 To consider the Chief Internal Auditor's annual report and assurance statement.
- 5.3.6 To review the operational effectiveness of Internal Audit by considering the audit standards, resources, staffing, technical competency and performance measures.
- 5.3.7 To review the terms of reference and appointment of the Internal Auditors.

5.4 External Audit

- 5.4.1 To review the Audit Plan, including the Performance Audit Programme.
- 5.4.2 To consider all statutory audit material, in particular:
 - Audit Reports (including Performance Audit Studies);
 - Annual Reports;
 - Management Letters.
- 5.4.3 To monitor management action taken in response to all External Audit recommendations including Performance Audit Studies (following consideration by the Staff Governance Committee or Clinical Governance Committee where appropriate).
- 5.4.4 To review the extent of co-operation between External and Internal Audit.
- 5.4.5 Annually appraise the performance of the External Auditors.
- 5.4.6 To note the appointment and remuneration of External Auditors and to examine any reason for the resignation or dismissal of the Auditors.

5.5 Standing Orders and Standing Financial Instructions

5.5.1 To review changes to the Standing Orders and Standing Financial Instructions.

5.5.2 To examine the circumstances associated with each occasion when Standing Orders are waived or suspended.

5.5.3 To review the Scheme of Delegation.

5.6 Annual Accounts

5.6.1 To review annually (and approve) the suitability of accounting policies and treatments.

5.6.2 To review schedule of losses and compensation payments.

5.6.3 Review the reasonableness of accounting estimates.

5.6.4 Review the external auditors management letter.

5.6.5 To review and recommend approval to the Board of the Annual Accounts.

5.6.6 To report in the Directors Report on the roles and responsibilities of the Audit Committee and actions taken to discharge those.

5.6.7 To review and recommend approval to the Board of the Patients Funds Annual Accounts.

6 AUTHORITY

The Committee is authorised by the Board to investigate any activity within its terms of reference. It is authorised to seek any information it requires from any employee and all employees are directed to co-operate with any request made by the Committee.

7 PERFORMANCE OF THE COMMITTEE

The Committee shall review its own performance, effectiveness, including its running costs, and terms of reference on an annual basis.

The Committee shall provide guidelines and/ or pro forma concerning the format and content of the papers to be presented.

The Chair of the Committee shall submit an Annual Report on the work of the Committee to the Board.

Subject to annual review