

**Establishment of an Auditor Panel and Change of Terms of Reference
for Audit and Integrated Governance Committee**

Governing Body meeting

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7 April 2016

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Is your report for Approval / Consideration / Noting	
<p>For approval NHS England is requiring all CCGs and NHS Trusts to establish “auditor panels” to advise on the appointment of their external auditors. The Governing Body is required to approve the membership and terms of reference of the auditor panel.</p> <p>As part of this, Governing Body is asked to approval (subject to further approval by the CCG’s Member organisations) changes to the Terms of Reference of the Audit and Integrated Governance Committee (AGIC). These changes have previously been considered by members of AIGC at 24 March meeting who recommend the changes.</p>	
Are there any Resource Implications (including Financial, Staffing etc)?	
None.	
Audit Requirement	
<p><u>CCG Objectives</u></p> <p><i>Which of the CCG’s objectives does this paper support?</i> Strategic Objective - To ensure there is a sustainable, affordable healthcare system in Sheffield. It supports management of the CCG’s principal risks 3.1, 4.1, 4.2 and 4.3 in the Assurance Framework.</p>	
<p><u>Equality impact assessment</u></p> <p><i>Have you carried out an Equality Impact Assessment and is it attached?</i> No.</p> <p><i>If not, why not?</i> There are no specific issues associated with this report.</p>	
<u>PPE Activity</u>	
<p><i>How does your paper support involving patients, carers and the public?</i> Not Applicable.</p>	

Recommendations

Governing Body is asked to approve:

- a) that the CCG's Audit and Governance Committee (AIGC) Terms of Reference are amended to also allow the AIGC to act as the CCG's Auditor Panel and
- b) the other minor changes to the Committee's Terms of Reference (as shown in track changes) on the attached draft Terms of Reference.

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1. Introduction and Background

Following the closure of the Audit Commission from 1 April 2015, there is no longer a centralised system of appointing external auditors for CCGs and NHS Trusts. The existing national contract arrangements for external auditors for CCGs come to an end with the 2016/17 financial year audit. CCGs have been given responsibility for appointing their own auditors starting with the 2017/18 year. We must have completed this process by no later than 31 December 2016 and Governing Bodies are required to have confirmed by March 2016 the membership and terms of reference of the auditor panel which should advise on the appointment. This will then allow the procurement process to commence in spring/early summer of 2016. We understand that CCGs can work together on procurements but need to have their own auditor panels to make individual appointments. The current thinking is that the five South Yorkshire and Bassetlaw CCGs will work collaboratively.

National guidance has been published which explains the legal requirements in relation to auditor panels and their responsibilities. This paper does not seek to set out all the detail on the issues and requirements which will be provided to the CCG's auditor panel once established. This paper simply seeks to set out the key issues the Governing Body should take into consideration in approving the membership and terms of reference of the panel.

2. Key Points to consider in determining Membership and Terms of Reference

- The auditor panel is an advisory body – it advises on the selection and appointment of external auditors. Responsibility for the actual procurement and appointment remains with Governing Body and must be conducted in accordance with the CCG's Standing Orders and Prime Financial Policies.
- Regulation 2: an auditor panel member may receive remuneration.
- Regulation 3: the quorum is two members or 50% of the membership of the panel (whichever is the greater.) The proceedings of the meetings are valid if a majority of members present are independent.
- Regulation 4: the auditor panel should also advise the health body on the purchase of "non audit services" from the auditor.
- Regulation 5: **An auditor panel must have at least three members, including a Chair who is an independent non-executive member of the Governing Body. A majority of the panel's members must also be independent and non-executive members of the Governing Body, but the panel may include a**

minority of members who are not members of Governing Body or who are not considered independent. Governing Body GPs are not considered independent in this context - see Regulation 6 below.

The guidance goes on to say that auditor panel members should have sufficient knowledge and experience. It would be usual for the CCG's Audit Committee Chair, who is the lay member with responsibility for governance, to chair the Auditor Panel and that this person has the appropriate qualifications, expertise or experience. If for any reason the Chair of the Audit Panel cannot attend the meeting the role should be assumed by another independent panel member.

- **Regulation 6:** the Governing Body must assess a prospective auditor panel member's independence by considering whether his/her circumstances could affect his judgement and by a number of factors for example recent employment with the CCG, close family ties to its directors, members, advisors or senior employees or a material business relationship with the CCG.
- **CCGs can use their current Audit Committee to act as the Auditor Panel if we comply with the membership requirements** or we can use a subset of Audit Committee membership. The current terms of reference for Sheffield CCG's AIGC membership of two Lay Members and two GPs, with quoracy being one Lay Member and one GP, does not fit with requirements. **However, AIGC agreed at its December 2015 meeting that it would like to recommend to Governing Body that assuming a fourth Lay Member is appointed then membership of AIGC is extended from two to three Lay Members, with two GP members being maintained and that quoracy for meetings is changed to two Lay members and one GP Member. This would allow the CCG's Audit Committee to act as the Auditor Panel and this is the recommended approach.**
- The Auditor Panel must have its own terms of reference. If the Audit Committee is going to function as the Auditor Panel, its terms of reference will need to be amended to incorporate the Auditor Panel functions.
- The status of the Auditor Panel must also be clear and covered in the CCG's Scheme of Delegation. There must be clear reporting and accountability lines and if it is a separate from Audit Committee the relationship with Audit Committee must be established and respective roles and responsibilities made clear.
- The auditor panel's key role is to check that:
 - Contract arrangements (ie procurement and selection of external auditors) are appropriate
 - The relationship and communications with the external auditors are professional
 - Conflicts of interest are effectively dealt with

3. Other Minor Changes to Terms of Reference

We are also taking this opportunity to propose updating the terms of reference attendance section for two points of accuracy including removing reference to the Yorkshire and Humber CSU.

Recommendations:

Governing Body is asked to approve:

- a) that the CCG's Audit and Governance Committee (AIGC) Terms of Reference are amended to also allow the AIGC to act as the CCG's auditor panel; and
- b) the other minor changes to the Committee's Terms of Reference as shown in track changes on the attached draft Terms of Reference

Julia Newton, Director of Finance
March 2016

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Audit and Integrated Governance Committee

Terms of Reference

CONSTITUTION AND AUTHORITY

The Governing Body resolves to establish a committee of the Governing Body to be known as the Audit and Integrated Governance Committee (the "Committee") in accordance with the CCG's Constitution. These terms of reference set out the membership, remit, responsibilities and reporting arrangements of the Committee and shall have effect as if incorporated into the Constitution.

The Committee is authorised by the Governing Body to investigate any activity within its terms of reference. It is authorised to seek any information it requires, from any Member, officer or employee who is directed to co-operate with any request made by this Committee.

The Committee is authorised to create working groups as necessary to fulfil its responsibilities within these terms of reference. The Committee may not delegate executive powers (unless expressly authorised by the Governing Body) and remains accountable for the work of any such group.

PURPOSE AND DUTIES

The Committee shall critically review the CCG's financial reporting and internal control principles and ensure an appropriate relationship with both internal and external auditors is maintained.

Governance, Risk Management and Internal Control

The Committee shall review the establishment and maintenance of an effective system of integrated governance, risk management and internal control across the whole of the CCG's activities.

In particular, the Committee shall review the adequacy and effectiveness of:

all risk and assurance related disclosure statements (in particular the annual governance statement) together with any appropriate assurances from Internal Audit or other independent sources prior to endorsement by the CCG;

the underlying assurance processes that indicate the degree of the achievement of CCG objectives, the effectiveness of the management of principal risks and the appropriateness of the above disclosure statements; the policies for ensuring compliance with relevant regulatory, legal and code of conduct requirements and related reporting and self-certification;

the CCG's Standing Orders, Scheme of Delegation and Reservation and Prime Financial Policies at least annually

the policies and procedures for all work related to fraud and corruption as set out in Secretary of State Directions and as required by NHS Protect.

In carrying out this work, the Committee will primarily utilise the work of Internal Audit, the work delegated to the Governance Sub Committee and other internal control functions, but will not be limited to these sources. It shall also seek reports and assurances from members of the Governing Body and senior employees as appropriate, concentrating on the over-arching systems of integrated governance, risk management and internal control, together with indicators of their effectiveness. This will be evidenced through the Committee's use of an effective assurance framework to guide its work and that of the audit and assurance functions that report to it.

Internal Audit

The Committee shall ensure that there is an effective internal audit function that meets mandatory Public Sector Internal Audit Standards and provides appropriate independent assurance to the Committee, Chief Officer (Accountable Officer) and the CCG's Governing Body.

The Committee shall ensure an effective internal audit function by:

Approving the appointment of the internal audit service and resolving any issues from resignation and dismissal;

review and approval of the internal audit strategy and annual operational plan ensuring that this is consistent with the audit needs of the organisation, as identified in the assurance framework;

considering the findings of internal audit work (and the response from relevant senior officers) and ensuring co-ordination between the internal and external auditors to optimise audit resources. This will include consideration of the annual report of the Head of Internal Audit.

monitoring the responsiveness of the CCG to the findings and recommendations of Internal Audit.

External Audit

The Committee shall review the work and findings of the external auditors (including annual plan and progress reports and annual audit letter) and consider the implications and the senior executive responses to their work.

The Committee shall achieve this by:

consideration of the performance of the external auditors, as far as the rules governing the appointment permit;

discussion and agreement with the external auditors, before the audit commences, on the nature and scope of the audit as set out in the annual plan, and ensuring co-ordination, as appropriate, with other external auditors in the local health economy;

discussion with the external auditors of their local evaluation of audit risks and assessment of the CCG and associated impact on the audit fee;

review of all external audit reports, including the report to those charged with governance, agreement of the annual audit letter before submission to the CCG's Governing Body and any work undertaken outside the annual audit plan, together with the appropriateness of management responses;

~~oversee within any nationally agreed framework for CCGs, the conducting of a market testing exercise for the appointment of an auditor at least once every 5 years and, based on the outcome, make a recommendation to the Governing Body with respect to the appointment of the auditor; and resolving any issues from resignation and dismissal~~

The Committee will act as the CCG's Auditor Panel. It will formally record when it is acting as Auditor Panel.

The Auditor Panel is an advisory body – it advises the CCG's Governing Body on the selection and appointment of external auditors. It oversees the conducting of a market testing and procurement exercise for the appointment of an external auditor at least once every 5 years. It also resolves any issues from resignation and dismissal.

The Auditor Panel will also ensure

- The relationship and communications with the external auditors are professional
- Conflicts of interest are effectively dealt with

Counter Fraud

The Committee shall satisfy itself that the CCG has adequate arrangements in place for countering fraud and shall review the outcomes of counter fraud work. It shall also approve the annual counter fraud work programme.

Financial Reporting

The Committee shall monitor the integrity of the financial statements of the CCG and any formal announcements relating to the CCG's financial performance.

The Committee shall review the financial statements before submission to the Governing Body and the CCG, focusing particularly on:

changes in, and compliance with, accounting policies, practices and estimation techniques;

unadjusted mis-statements in the financial statements;
significant judgements in preparing of the financial statements;
significant adjustments resulting from the audit;
letter of representation; and
qualitative aspects of financial reporting.

The Committee shall ensure that the systems for financial reporting to the CCG, including those of budgetary control are subject to review as to completeness and accuracy of the information provided to the CCG.

The Committee shall:

examine the circumstances associated with each occasion when the Standing Orders of the CCG are waived;
review the schedule of losses and compensation payments;
review the schedule of tender waivers; and
review schedules of debtor and creditor balances over 6 months old and consider explanations and action plans.

Other Assurance Functions

The Committee shall review the findings of other significant assurance functions, both internal and external to the CCG, and consider the implications for the governance of the CCG.

In addition, the Committee will review the work of other groups/Committees within the CCG, whose work can provide relevant assurance to the Committee's own scope of work. This will particularly include:

the Quality Assurance Committee from which a report will be provided to the Committee at each meeting highlighting any matters of particular relevance; and

the Governance Sub-Committee. The minutes of the meetings of this Sub – Committee will be presented for review along with a report on key activities and actions.

MEMBERSHIP

The Committee shall consist of the following members:

~~two~~ three Lay Members of the Governing Body;

two GPs who are Members of the Governing Body;

Neither the Chair of the Governing Body nor the Chief Finance Officer shall be a member of the Committee.

The Lay Member on the Governing Body, with a lead role in overseeing key elements of governance, shall be the chair of the Committee. ~~The~~ Either of

~~the other second~~ Lay members on the committee shall ~~be the~~ deputise asy chair in his/her absence.

QUORUM

A quorum shall be ~~three~~ two members, of whom ~~two~~ shall be a Lay Members and one shall be a GP.

ATTENDANCE AT MEETINGS

In addition to the Committee members, the Chief Finance Officer, Head of Governance and Planning and representatives from Internal Audit and External Audit shall normally attend meetings.

Members of the Governing Body shall be invited to attend those meetings in which the Committee will consider areas of risk or operation that are their responsibility.

Other CCG ~~or South Yorkshire and Bassetlaw Commissioning Support Unit~~ employees such as relevant finance and HR managers shall also attend by request of the chair of the Committee. The Accountable Chief Officer and Chair of the Governing Body may be invited to attend meetings of the Committee as required.

A representative of the local counter fraud service may be invited to attend meetings of the Committee.

An employee of the CCG will administer the meetings and take formal minutes.

FREQUENCY OF MEETINGS

Meetings will be held at least quarterly, with additional meetings where necessary.

The External Auditor and Head of Internal Audit Services shall each be afforded the opportunity at least once per year to meet with the Committee Chair and Deputy Chair.

The Chief Finance Officer will be responsible for preparing and discussing the agenda for each meeting with the Chair of the Committee (or in his absence the Deputy Chair). The agenda and papers will be distributed to members of the Committee at least 5 days in advance of the meeting, unless otherwise agreed by the Chair of the Committee.

ACCOUNTABILITY AND REPORTING ARRANGEMENTS

The minutes of all meetings of the Committee shall be formally recorded and submitted, together with recommendations where appropriate, to the Governing Body.

The Committee will report annually to the Governing Body in respect of the fulfilment of its functions in connection with these terms of reference.

The CCG's annual report shall include a section describing the work of the Committee in discharging its responsibilities.

OTHER MATTERS

The Committee will agree an Annual Work Plan at its March meeting each year.

The Committee will review its terms of reference at least annually making recommendations on any changes to the Governing Body.

The Committee will review the terms of reference of the Governance Subcommittee including any recommendations from the Sub-Committee for changes. The Committee will then make recommendations on any changes to the Governing Body.

Members of the Committee must attend at least two meetings each financial year but should aim to attend all scheduled meetings.