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| --- | --- | --- |
| Meeting: **Date**: | Board Meeting29 July 2021 |  |
| Subject: | Audit and Risk Committee Annual Report |
| Recommendation: | Board Members are asked to:  |  |  | | --- | --- | | Discuss and Note | ✓ | | Discuss and Approve |  | | Note for Information only |  | | |
|  |  | |

#### Background

As per the Committee Terms of Reference, the Final Audit and Risk Committee Annual Report was approved at the Audit and Risk Committee on 20 July 2021 and is now presented for noting.

All areas in the report are final outcomes. The Board has endeavoured to complete as much of the normal audit work as possible.

#### Conclusion

Board Members are asked to approve the Audit and Risk Committee Annual Report.

**Karen Kelly**

**Chair of Audit and Risk Committee**

**21 July 2021**

## Prepared by - Lily Bryson (Assistant Director of Finance – Governance and Financial Accounting)

**Audit and Risk Committee**

**Annual Report**

**2020/21**

1. **Background**
   1. The Committee performed its role during the year in line with the approved Terms of Reference, which were updated during the year to take account of the new ‘Audit and Assurance Committee Handbook’ which was issued by the Scottish Government.
   2. During the year, papers regarding the work of the endowments sub-committee were noted by the Committee.
   3. Members of the Audit and Risk Committee are appointed by the Board; to whom it is answerable.
   4. Members of the Audit and Risk Committee during 2020/21 were:-

* Karen Kelly (Chair from 8 November 2017)
* Stephen McAllister
* Morag Brown
* Elaine Cameron (from 20 October 2020)
* Jane Christie-Flight (from 16 February 2021)
* Callum Blackburn (from 1 November 2020)
  1. Attendance at the meetings was recorded as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **List members** | 20 October 2020  Microsoft Teams | 16 February 2021  Microsoft Teams | 20 April 2021  Microsoft Teams | 20 July 2021  Microsoft Teams |
| Karen Kelly |  | Apologies |  |  |
| Morag Brown |  | *Chair* |  |  |
| Stephen McAllister |  | Apologies |  | Apologies |
| Elaine Cameron |  |  |  |  |
| Rob Moore | - |  |  |  |
| Jane Christie-Flight | - |  |  | Apologies |
| Callum Blackburn | - | - |  | Apologies |
|  |  |  |  |  |
| **In attendance** |  |  |  |  |
| Jann Gardner |  |  |  |  |
| Colin Neil |  |  |  |  |
| Lily Bryson |  |  | Apologies |  |
| Liane McGrath |  |  |  | **-** |
| Nicki Hamer | - | - | - |  |
| Laura Langan |  |  |  |  |
| Susan Douglas-Scott | Apologies |  | Apologies |  |
| Grant Thornton |  |  |  |  |
| Azets |  |  |  |  |

1. **Meetings**
   1. The Audit and Risk Committee had five formal meetings relating to financial year 2020/21 during the period 1 July 2020 to 30 June 2021. The actual work programme covered a number of areas and is included as an appendix to this report. In addition, a number of internal and external audit reports were considered throughout the year, these are detailed later in this report.

1. **Internal Audit Activity 2020/21** 
   1. During the year the Audit and Risk Committee considered in detail the following reports from Grant Thornton, the Boards internal auditors. The reports are graded under four headings:

* Significant Assurance
* Significant Assurance with some improvement required
* Partial Assurance with improvement required
* No Assurance

The definitions of each of these is contained in each Audit report, this is reflected in the summary below:

* **Property Transaction Monitoring Report**

A letter of nil return was submitted regarding this in line with the Property Transaction Manual.

* **Governance**

The overall grade of this report was ‘Reasonable Assurance’ and contained the following number of findings:

High Priority - 0

Medium Priority - 0

Low Priority - 0

Advisory - 1

The advisory finding was noted.

* **Financial Sustainability Part One**

The overall grade of this report was ‘Reasonable Assurance’ and contained the following number of findings:

High Priority - 0

Medium Priority - 0

Low Priority – 0

Advisory - 1

The advisory finding was noted.

* **Patient Pathways part one**

The overall grade of this report was ‘Reasonable Assurance with some improvement required.’ and contained the following number of findings:

High Priority - 0

Medium Priority - 0

Low Priority – 0

Advisory - 1

The findings and recommendations were accepted.

* **Financial Sustainability Part two**

The overall grade of this report was ‘Reasonable Assurance’ and contained the following number of findings:

High Priority - 0

Medium Priority - 0

Low Priority – 0

Advisory - 0

The Commentary provided was noted.

* **Workforce**

The overall grade of this report was ‘Reasonable Assurance’ and contained the following number of findings:

High Priority - 0

Medium Priority - 0

Low Priority – 1

Advisory - 1

The findings and recommendations were accepted.

* 1. The internal auditors produce an annual assurance report based on the work they have undertaken during the year. The Internal audit opinion which is contained in the Grant Thornton annual report is noted below:

“Our overall opinion for the period 1 April 2020 to 31 March 2021 is that based on the scope of reviews undertaken and the sample tests completed during the period, reasonable assurance can be given on the overall adequacy and effectiveness of the organisation’s framework of governance, risk management and control.

There are only minor weaknesses in the risk management activities and controls designed to achieve the risk management objectives required by management. Those activities and controls that we examined were operating with sufficient effectiveness to provide reasonable assurance that the related risk management objectives were achieved during the period under review.”

1. **Work/reviews carried out by external parties**
   1. Azets were re-appointed as Board external auditors with 2020/21 being the fifth year of their appointment. The Committee supported a two-year extension to the contract and a full tendering process will be undertaken when the next tenure expires.

* 1. Scott-Moncrieff have presented the following reports during the year:
* Annual Plan for 2020/21;
* Annual Report to the Board and the Auditor General for Scotland (June 2021).

* 1. Azets were appointed as the external auditors for the Board Charity for the five years. This appointment covers additional training for Trustees, Fundholders and finance staff.

1. **Board Papers/Corporate Governance**

* 1. The approved minutes of each of the Audit and Risk Committee meetings are presented to the Board meeting. Summary outputs from each meeting are also presented to the next available Board; this allows Board Members to be appraised of any governance issues.
  2. As part of the Boards response to the Covid-19 pandemic the Board has implemented an Agile Governance Model to ensure the organisation is effectively responding to the pandemic and can discharge its governance responsibilities. This model ensures that the organisation maximises the time available for management and operational staff to deal with the Covid-19 impact.

During this time, the Agile Governance Group (which includes Board Chair, Non-Executive Director Clinical Governance Committee Chair, Non-Executive Director Person Centred Committee Chair, Chief Executive and Executive Directors) meet every two weeks to provide the Board with assurance that robust processes are in place to manage the organisations resilience response. The full Board meets bi-monthly to monitor the current situation and organisational response.

* 1. The final annual report will be presented to Board in June 2021.

1. **Risk Management**

* 1. During 2020/21 work continued to further develop our risk appetite, via a Board workshop, and board risk register.

* 1. The Risk Appetite and Risk Register were formally approved by the Audit & Risk Committee and the Board, with the risk register being a standing item for review at the ARC governance meetings to ensure that relevant risks are considered on a rolling basis.
  2. An update is provided at each Audit and Risk Committee meeting on counter fraud work, including investigations by the Counter Fraud Service and any work related to the National Fraud Initiative (NFI). Updates on the NFI exercise were given as information was available.

1. **Audit Scotland National Reports**
   1. The Audit Committee receives all Audit Scotland Reports relevant to the sector. Where another Governance Committee is more relevant to consider the report in detail, these will be referred on. Reports considered in the year include:

NHS Specific reports

* Covid-19: Implications of Public Finances in Scotland – prepared by Audit Scotland (published August 2020): and

Non-NHS specific reports published

* Annual Diversity Report – prepared by Audit Scotland (published September 2020);
* Equal Pay review 2020 - prepared by Audit Scotland (published September 2020);
* Equality Impact Assessment: Covid-19 and working from home - prepared by Audit Scotland (Published August 2020);
* Gender Pay gap - prepared by Audit Scotland (Published August 2020);
* Covid-19: Emerging fraud risks - prepared by Audit Scotland (Published July 2020);
* COVID - 19, Personal Protective Equipment – prepared by Audit Scotland (published June 2021);
* Audit Scotland Annual Report and Accounts – prepared by Audit Scotland (published June 2021);
* Correspondence and Whistleblowing Annual Report 2020/21 - prepared by Audit Scotland (published June 2021);
* International Work Annual Report 2020/2121 - prepared by Audit Scotland (published June 2021);
* Quality of Public Audit in Scotland Annual Report 2020/21 - prepared by Audit Scotland (published June 2021);
* Transparency Report 2020 - prepared by Audit Scotland (published June 2021);
* Code of Audit Practice 2021 - prepared by Audit Scotland for the Accounts Commission and the Auditor General (published June 2021);
* Accounts Commission Annual Report - prepared by Accounts Commission (published June 2021);
* Equality Outcomes 2021-25 - prepared by Audit Scotland and the Accounts Commission (published April 2021); and
* Mainstreaming Equality and Equality Outcomes, progress report 2019-21 - prepared by Audit Scotland and the Accounts Commission (published April 2021).

Although these reports were not presented, the Committee was advised of their availability on the Audit Scotland website.

1. **Governance Reports**
   1. As part of the terms of reference for the governance committees, each committee is required to produce an annual report summarising the work of the committee during the year, with this being presented to each committee for approval and to the Audit and Risk Committee for information. The reports are as follows:

* Audit and Risk Committee (effective)
* Clinical Governance committee (safe)
* Staff Governance/Person Centred Committee (Person Centred)
* Endowment Sub-Committee Report (reporting to the Trustees) and provide for information to the Audit and Risk Committee

* 1. In addition to the above formal reports to the governance committees, additional reports have been prepared to also inform the governance statement, with these being:
* Report on Information Governance; and
* An annual risk management report
  1. An update on the Blueprint for Good Governance was presented to the Committee in June 2020. Further progression of the Blueprint Action Plan will be updated and presented to the Board on an annual basis.
  2. During the year the Committee considered recommencing with work on assurance mapping in order to ensure that the information being presented to the committee provides it with the assurance required for the committee to be able to advise the Board on key governance documents that are within its’ remit – this will be formally recommenced for 2021/22.

1. **Chair’s Conclusion**
   1. The Audit and Risk Committee continues to develop the contribution that the Committee makes to ensure the continued provision and improvement in Internal Control arrangements within the Board and, in accordance with its Terms of Reference, will seek to maintain that progress. The Audit and Risk Committee has undertaken work as per the audit plan during the year. In addition, at the end of each meeting the Committee reflects on the performance of the Committee including the papers presented and the assurance provided. This has proven very effective.
   2. The Chair of the Audit and Risk Committee concludes that the Audit and Risk Committee has fulfilled its remit and considers that there are adequate and effective internal financial control arrangements in place to assure the Board of its corporate governance duties.

**Chair of the Audit and Risk Committee – Karen Kelly**

**July 2021**

**AUDIT AND RISK COMMITTEE - TERMS OF REFERENCE**

**(June 2020)**

1. *Introduction*

The Board has established an Audit and Risk Committee as a standing Committee of the Board to support them in their responsibilities for the issues of risk, control and governance and associated assurance through a process of constructive challenge.

The Committee will support the Accountable Officer and the Board by reviewing the comprehensiveness and reliability of assurances of governance, risk management, the control environment and the integrity of the financial statements and the annual report.

1. *Membership*

In order to preserve its independence from operational management, the Audit and Risk Committee does not have any executive membership. The Audit and Risk Committee will report to the Board. Membership will be

* Four Non Executive Members appointed by the Board, one of which will be appointed by the Board to be the Committee Chair
* The Chair of the Board shall not be a member but shall be invited to attend at least one meeting per year

The committee will be provided with a committee secretariat function from the corporate administration team. Minutes of the meeting shall be submitted to the next meeting of the Committee and thereafter submitted by its Chair to the first ordinary meeting of the Board for noting.

The committee has the right to require the attendance of any Director or member of staff, persons attending in this capacity are not entitled to a vote in the decision making process.

The committee has a number of attendees who are detailed below:

* Chief Executive (Accountable Officer)
* Director of Finance (Executive Lead)
* Assistant Director of Finance (Governance and Financial Accounting)
* Head of Corporate Governance and Risk
* Head of Corporate Governance
* The Chair of the Board may attend but in an ex-officio capacity
* Representative from the Board Internal Auditors
* Representative from the Board External Auditors

The 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.

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

1. *Executive Director Lead*

The Designated Executive Lead will support the Chair of the Committee in ensuring that the Committee operates according to /in fulfilment of its agreed Terms of Reference. The named Executive Lead for the Committee is the Director of Finance. Specifically, they will:

* Support the Chair in ensuring that the Committee remit is based on the latest guidance and relevant legislation, and the Board’s best value framework;
* Liaise with the Chair in agreeing a programme of meetings for the business year, as required by its remit;
* Oversee the development of the annual workplan for the Committee which is congruent with its remit and the need to provide appropriate assurance at the year-end, for the endorsement of the Committee and approval by the Board;
* Agree with the Chair an agenda for each meeting, having regard to the Committee’s remit and workplan;
* Lead a mid-year review of the Committee Terms of Reference and progress against the annual workplan, as part of the process to ensure that the workplan is fulfilled; and
* Oversee the production of an annual report on the delivery of the Committee’s remit and workplan, for endorsement by the Committee and submission to the Board.

1. *Quorum*

A quorum shall consist of three Members of the Committee.

1. *Meetings*

The committee shall meet no fewer than four times per annum, with meetings schedule in line with the following timetable and detailed agreed timetable and workplan for the forthcoming financial year.

The Committee will formally report in writing to the Board and Accountable Officer after each meeting. A copy of the minutes of the meeting may form the basis of the report.

The Committee will provide the Board and Accountable Officer with an Annual Report, times to support finalisation of the accounts and the governance statement, summarising its conclusion from the work done during the year.

The detailed workplan will be presented to the Summer audit committee meeting and will include, as a minimum, the indicative agenda items listed below:

|  |  |
| --- | --- |
| **Audit Meeting** | **Proposed Items for Agenda** |
|  |  |
| Autumn Meeting -  Oct | * Internal audit progress Report – standing item * External Audit – update – standing item * National Fraud Initiative (final report) * Update on Shared Services/National and Regional Working * Fraud update - Standing Item * Audit Scotland Reports – standing item * Review of Standing Financial Instructions * Update on Assurance Mapping Framework; * Enterprise Risk Update * Board Risk Register (standing agenda item) * Cyber update * Procurement Strategy update * Update on expansion programme |
| Winter Meeting -  February | * Internal Audit Progress Report * External Audit annual plan * External Audit – Interim management report * Update on Governance statement guidance * Fraud Update * Updated fraud policy * Update on Audit Scotland reports * Update on Shared Services/National and Regional Working * Board Risk Register * Amendments to SFIs if required\* * Update on expansion programme |
| Spring Meeting -  April  NB the accounting policies need to be approved prior to prep of accounts.  NB the governance statement needs to be approved prior to inclusion in accounts | * Internal Audit Progress Report * Internal Audit Draft plan for 2020/21 for approval * Internal Audit Annual Report\* * External Audit * Standing Committee Annual Reports (Draft) * Information Governance Annual Report * Risk Management Annual Report * Accounting Policies for approval\* * Fraud update * Risk update * Board Risk Register * Governance statement for approval (to include in annual accounts)\* * update on Audit Scotland reports * Draft annual report for committee * Amendments to SFIs if required\* * Update on expansion programme |
| Summer meeting –  early June | * External Audit Annual Report with opinion * Annual report and Accounts * Statement of Assurance * Final Annual Report for the committee. * Proactive fraud plan for year * ISAE3402 – financial controls assurance for National Single Instance * Any other external assurance papers * Terms of Reference for committee – annual review * Work plan for committee for following year * Fraud update * Enterprise Risk update * Board Risk Register * Endowments Annual Report and Accounts – for noting * Update on expansion programme |

**\* - dependent on the date of the meeting some items may move between meetings**

**Other items may be added as required**

* Standing items for each meeting:
* Internal audit progress report
* External audit
* Fraud update
* Board Risk Register
* Audit Scotland update – reports as applicable
* NFI updates
* Update on national shared services – Regional/National working

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

Meetings will normally be attended by those identified as regular attendees in point 2 above.

The Audit and Risk Committee may ask any other official of the organisation to attend to assist it with its discussions on particular matters.

The Audit and Risk Committee may ask any or all of these who normally attend but who are not members to withdraw to facilitate open and frank discussion of particular matters.

The Accountable Officer may ask the Audit and Risk Committee to convene further meetings to discuss particular issues on which the Accountable Officer wishes the committee’s advice, guidance or opinion.

1. *Reporting*

* Where the review of the Terms of Reference results in amendments, the revised Terms of Reference must be submitted to the Board for formal approval.
* The committee will approve at the start of each financial year a detailed work plan for approval by the Board.
* The committee annual report will inform the submission of the statement of assurance from the Committee to the Board at year-end.
* On an annual basis the committee will be required to complete the self assessment checklist provided in the Audit and Assurance Handbook.

1. *Responsibilities/Remit*

The Committee has responsibility for ensuring that the Board’s activities are within the guidelines for corporate governance within the NHS and that an effective internal control system is maintained. The Committee will provide an independent and objective review of these internal controls. . The duties of the Audit Committee are in line with the Audit and Assurance Handbook and are detailed below. The audit committee will advise the Board and the Accountable Officer on:

* The strategic process for risk, control and governance and the Corporate Governance Statement;
* Independent scrutiny of the arrangements and action plans for the risk management processes which are in place within the Board including review of the Board Risk Register and updates provided from the work of the Strategic Risk Committee;
* The accounting policies, the accounts, and the annual report for the organisation, including the process for review of the accounts prior to submission to audit, levels of error identified, and the management’s letter of representation to the external auditors;
* The planned activity and results for both internal and external audit;
* The adequacy of management responses to issues identified by audit activity, including external audit’s management letter/report;
* The effectiveness of the internal control environment;
* Assurances relating to the corporate governance requirements of the Board;
* Proposals for tendering for internal audit services or for the purchase of non-audit services from contractors who provide audit services;
* Anti-fraud policies, whistle-blowing processes and the arrangements for special investigations; and
* The acceptability of any proposed changes to the standing orders, the scheme of delegation and the standing financial instructions.
* Report the circumstances associated with each occasion when the Standing Orders are waived
* Schedule of losses and compensation payments and make recommendations to the Board on proposed write-offs requiring the approval of Scottish Government

The audit committee will also periodically review its own effectiveness and support the results of the review to the Board and Accountable Officer.

All members of the committee will be required to sign a formal declaration accepting their responsibilities as a member of the Committee.

1. *Rights*

The Audit and Risk 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 the organisation, subject to budgets agreed by the Board or Accountable Officer.

1. *Access*

The designated Chief Internal Auditor and the representative from External Audit will have free and confidential access to the Chair of the Committee. Meetings may be arranged as required at a minimum on an annual basis.

1. *Information Requirements*

For each meeting the Audit and Risk Committee will be provided with:

* A report summarising the significant changes to the organisation’s risk register;
* A progress report from the Chief Internal Auditor summarising
  + Work performed (and a comparison with work planned)
  + Key issues emerging from Internal Audit work
  + Management responses to audit recommendations
  + Significant changes to the audit plan
  + Any resourcing issues affecting the delivery of the Internal Audit Objectives;
* A progress report from External Audit representatives summarising work done and emerging findings; and
* A report on any fraud investigations or fraud prevention activity since the previous meeting.

As and when appropriate the Committee will also be provided with:

* Proposals for the terms of reference of internal audit;
* The internal audit plan and strategy;
* The chief internal auditor’s annual report and opinion;
* Quality assurance reports on the internal audit function;
* The draft Directors’ Report and Annual accounts;
* The draft Governance Statement;
* A report on changes to accounting policies;
* External audit’s management letter/report;
* A report on any relevant service audit reports on the controls operating around processes undertaken by another body on the Board’s behalf;
* A report on any proposals to tender for audit functions;
* A report on co-operation between internal and external audit;
* Clinical Governance and Staff Governance annual reports;
* The risk management annual report;
* A summary of any relevant Audit Scotland reports, the implications for the Board and assurances as to actions being taken;
* A report on the national fraud initiative;
* A summary of any reports by external bodies (eg HIS) which will not be considered by any other governance committee or which contains significant issues the committee needs to take into account in it’s assessment of the internal control arrangements; and

The above list, which is not exhaustive, is the suggested minimum requirements for the inputs which should be provided to the committee, more items may be provided as appropriate.

1. ***Review of Terms of Reference***

These terms of reference will be reviewed annually

Work plan for 2020/21

|  |  |
| --- | --- |
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**Other items may be added as required**

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* Fraud update
* Board Risk Register
* Audit Scotland update – reports as applicable
* NFI updates
* Update on national shared services – Regional/Nat