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**Audit and Risk Committee**

**Annual Report**

**2017/18**

1. **Background**
   1. The Committee performed its role during the year in line with the approved terms of reference, these were reviewed during the year and no amendments were made at this time, with the exception of the number of members required for the meeting to be quorate. During the year, papers regarding the work of the endowments sub-committee were noted by the Committee.
   2. Members of the Audit and Risk Committee are appointed by the Board, to whom it is answerable.
   3. The Chair of the Board left the Board in March 2016; this post has been filled on an interim basis by Stewart MacKinnon previous Chair of Audit and Risk Committee. Due to the guidance for members of the audit and risk committee and the independence of the Board Chair Stewart MacKinnon had stepped down on a temporary basis from the role of Chair of the Audit and Risk Committee. The post was filled on an interim basis by Phil Cox who is an existing member of the Audit and Risk Committee This interim role for the audit and risk committee ended on the 7 November 2017 with the appointment of Karen Kelly as appointed Chair of the Audit and Risk Committee. In addition a new Board Chair has been appointed from April 2018. There still remains a vacancy for a member of the Audit and Risk Committee and this recruitment process is underway.
   4. Members of the Audit and Risk Committee during 2017/18 were:-

* Karen Kelly (Chair from 8 November 2017) and a member of the Committee from August 2017
* Phil Cox (interim chair from 18 March 2016 – 7 November 2017)
* Kay Harriman
  1. Attendance at the meetings was recorded as follows:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **List members** | 7 November  2017 | 15 February 2018 | 24 April 2018 | 12 June 2018 |
| Phil Cox |  | Apologies noted |  |  |
| Kay Harriman |  |  |  |  |
| Karen Kelly |  | (Chair of meeting) |  |  |
| Stewart MacKinnon | - | (invited to attend to ensure quorate membership) | - | - |
| **Attendees** | | | | |
| Jill Young | Apologies noted |  |  |  |
| Julie Carter |  |  |  |  |
| Lily Bryson |  |  |  |  |
| Laura Langan- Riach | - | Apologies noted |  |  |
| PwC |  |  |  |  |
| Scott -Moncrieff |  |  |  |  |
| Robin McNaught |  |  |  |  |
| Grant Thornton |  |  |  |  |

As it is not recognised best practice the Chair of the Board does not as a matter of routine attend meetings of the Audit and Risk committee.

Due to the absence of one of the committee members which meant the meeting would not be quorate, the previous chair of the committee was invited to attend the February 2018 meeting on an exceptional basis. .

1. **Meetings**
   1. The Audit and Risk Committee had four formal meetings relating to financial year 2017/18 during the period 1 July 2017 to 30 June 2018. 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 2017/18** 
   1. During the year the Audit and Risk Committee considered in detail, the following reports from PricewaterhouseCoopers, Board internal auditors:

* **Research Project Governance**

The overall grade of this report was Medium Risk and contained the following number of findings:

High Priority - 0

Medium Priority - 2

Low Priority - 4

All findings and recommendations were accepted.

* **Service Review – Laboratories**

The overall grade of this report was Medium Risk and contained the following number of findings:

High Priority - 0

Medium Priority - 2

Low Priority - 1

All findings and recommendations were accepted.

* **Project Management - Expansion Project**

The overall grade of this report was Medium Risk and contained the following number of findings:

High Priority - 0

Medium Priority - 1

Low Priority - 3

All findings and recommendations were accepted.

* **Business Continuity Management**

The overall grade of this report was Medium Risk and contained the following number of findings:

High Priority - 0

Medium Priority - 2

Low Priority - 1

All findings and recommendations were accepted.

* **Key Financial Controls: Endowment Funds**

The overall grade of this report was low Risk and contained the following number of findings:

High Priority -0

Medium Priority -0

Low Priority -2

All findings and recommendations were accepted.

* **Workforce Planning**

The overall grade of this report was medium Risk and contained the following number of findings:

High Priority -0

Medium Priority - 2

Low Priority - 2

All findings and recommendations were accepted.

* **Risk Management**

The overall grade of this report was medium Risk and contained the following number of findings:

High Priority -0

Medium Priority -2

Low Priority -1

All findings and recommendations were accepted.

* **Gifts and Hospitality**

The overall grade of this report was low Risk and contained the following number of findings:

High Priority -0

Medium Priority -2

Low Priority -0

Advisory - 1

All 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 PwC annual report is as follows: ‘Generally satisfactory with some improvements required’.

During the previous financial year, no significant control weaknesses or issues have arisen and no significant failures have arisen in the expected standards for good governance, risk management and control.

It should be noted that whilst no significant control weaknesses have been identified a small number of medium and low risk recommendations were made by internal audit; however these areas would not have an impact on the achievement of the Corporate Objectives.

1. **Work/reviews carried out by external parties**
   1. Scott Moncrieff were re-appointed as Board external auditors with 2017/18 being the second year of their new appointment.

* 1. Scott Moncrieff presented the following reports during the year:
* Annual Plan for 2017/18;
* Interim Management Report;
* Annual Report to the Board and the Auditor General for Scotland (June 2018).

* 1. Scott Moncrieff have also been appointed the external auditors for the Board Charity for the next five years. This appointment will cover additional training for Trustees, Fundholders and finance staff.

1. **Board Papers**

* 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.

* 1. The final annual report will be presented to Board in June 2018.

1. **Risk Management**

* 1. During 2017/18 work continued to further develop our enterprise risk framework with the role of the Chief Risk Officer and establishment of a Strategic Risk Committee. The Strategic Risk Group was established in November 2016, with terms of reference approved by the Audit and Risk Committee and a work plan agreed.

* 1. The final Risk Management annual report for 2017/18 has been received at the April 2018 Audit and Risk Committee. A report on relevant risks in the Board Risk Register was also received and considered at each meeting of the committee.

* 1. At each Audit and Risk Committee meeting an update was given on counter fraud work, including investigations by the Counter Fraud Service and any work related to the National Fraud Initiative. Updates on the NFI exercise were given as information was available.

1. **Audit Scotland National Reports**
   1. The Audit Committee receives all national audit reports produced by Audit Scotland. 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

* Scotland’s NHS Workforce – prepared by Audit Scotland for the Auditor General (published February 2017).
* The 2016/17 audit of NHS Tayside: Financial Sustainability – prepared by Audit Scotland for the Auditor General (published October 2017)
* NHS Workforce Planning – prepared by Audit Scotland for the Auditor General (published July 2017)
* The NHS in Scotland 2017 - prepared by Audit Scotland for the Auditor General (published October 2017)
* Audit Scotland Improving the Quality of NHS accounts

Non-NHS specific reports published which do not relate specifically to the Board

* The 2016/17 audit of the Scottish Government Consolidated Accounts – prepared by the Auditor General (published September 2017)

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. **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**

**30 May 2018**

**AUDIT AND RISK COMMITTEE - TERMS OF REFERENCE (June 2017)**

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 purpose of the Committee is to assure the Board that an appropriate system of internal control has been implemented and is working effectively. In meeting this requirement the Chair of the Audit and Risk Committee submits an annual report summarising the activities of the Committee to assure the Board that the Committee’s responsibilities are being discharged in accordance with its remit.

1. *Membership*

In order to preserve its independence from operational management, the Audit and Risk Committee does not have any executive membership. It is the only standing committee for which the Chair of the Board does not have ex-officio status.

The current membership of the committee is listed below:

* Interim Chair – P Cox (from 18 March 2016 )
* J Rae – from 1 October 2011
* K Harriman – from 30 June 2015
* To be filled following appointment of Board Chair

The committee will be provided with a secretariat function by the personal assistant to the Director of Finance. 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. In the interim an update on the proceedings will be submitted to the Board for information.

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:

J Carter – Director of Finance (Executive Lead)

J Young – Chief Executive (Accountable officer)

L Bryson – Assistant Director of Finance (Governance and Financial Accounting)

L Langan-Riach – Interim Chief Risk Officer

The Chair of the Board may attend but in an ex-officio capacity

Representative from PricewaterhouseCoopers (PwC) – Board Internal Auditors.

Representative from Scott-Moncrieff – Board External Auditors

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. In the interim until full membership of four non-executives is in place the quorum will be two members.

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 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 – standing item * Update on Shared Services – Standing item * Fraud update - Standing Item * Audit Scotland Reports – standing item * Update on Property and Asset Management Strategy – 6 month review * Amendments to SFIs if required\* * Update on roll out of Enterprise Risk Framework * Board Risk Register (standing agenda item) * Review of Board Standing Orders * Update on work on asset lives * Gifts and Hospitality Policy * Cyber 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 * Procurement Strategy update * Shared Services update * Enterprise Risk update * 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 2016/17 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 |

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*

* The Audit and Risk committee will formally report in writing to the Board and the Accountable Officer after each meeting. This, typically, will be through the submission of Minutes of meetings but if necessary may include an additional report on individual matters of materiality.
* The Audit and Risk committee will provide to the Board and Accountable Officer with an Annual Report, timed to support the finalisation of the accounts and the Corporate Governance Statement, summarising its conclusions from the work it has done during the year.
* 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.

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 duties of the Audit Committee are in line with the NHS Audit Committee 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.

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

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;
* A progress report from External Audit; 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 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 the committee needs to take into account in it’s assessment of the internal control arrangements; and
* Update reports from the Strategic Risk Committee

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.

Work plan for 2017/18

|  |  |
| --- | --- |
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|  |  |
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