



MEETING	PUBLIC BOARD 19 June 2019
Agenda item Paper Number	8 CM/06/19/08b
Agenda Title	Audit and Corporate Governance Committee (ACGC): Annual report to the Board
Sponsor	Paul Rew, Chair, Audit and Corporate Governance Committee
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PURPOSE OF PAPER:

The annual report of the Audit and Corporate Governance Committee to the Board on its work in 2018-19.

Summary

1. This is the annual report of the Audit and Corporate Governance Committee (ACGC) to the Board on its work in 2018/19.
2. ACGC supports the Board in its responsibilities for risk, control and governance by reviewing the comprehensiveness of assurances that meet the needs of the Board and Accounting Officer and by reviewing the reliability and integrity of these assurances. The Committee does this by scrutiny of: the strategic processes for management of corporate risk, controls and corporate governance; the CQC annual report and accounts; planned activity and results of both internal and external audit; the adequacy of the management response to issues identified by audit activity; and procedures for detecting fraud.
3. As the change programme has developed we have looked at the governance arrangements across the portfolio of work, particularly at processes employed in CQC for projects providing digital solutions to business needs. This is a significant, challenging and multi-year piece of work for CQC and accordingly, required a significant amount of committee time to give proper scrutiny. To continue to do this effectively, a sub-group of ACGC was established in March to focus on the change programme. The sub-group, consisting of all Non-executive members of ACGC, facilitates and seeks assurance that the three main aims of the change programme – digital, people and quality improvement – progress in a rapid and co-ordinated manner that delivers real results to the organisation. This is not just about the digital elements of the project nor about the practical processes of change implementation, but also about ensuring that cultural change takes place so that colleagues across the organisation are able to fully engage with programme and see real benefits in the way that they work. We will continue to scrutinise all aspects of the change programme.

4. In considering the general state of governance, risk management and internal control of CQC, the committee was assured by the predominantly positive assessments and internal audit activities. In our report last year, we acknowledged improvement in the finance and planning function and this improvement continues. We look forward to further positive development over the coming year, especially with regard to medium and longer-term planning in light of ongoing resource pressures, the developing health and social care environment and the increasing use of intelligence in informing our inspection programme.

Recommendation

5. The Board is asked to **NOTE** the annual report of the Audit and Corporate Governance Committee.

Discussion and Implications

Introduction

6. This is the eighth annual report from ACGC, summarising the Committee's oversight of CQC governance, risk management, internal control, management assurance, internal audit and external audit responsibilities.
7. The last annual report from the Audit and Corporate Governance Committee was submitted to the Board in June 2018. This report therefore covers four formal ACGC business meetings that have been held during the period of this review. Following each ACGC meeting, a summary report is provided to the public session of the Board and full minutes are presented to the private session of the Board.
8. ACGC terms of reference explicitly acknowledge the role played by the Regulatory Governance Committee (RGC) in its provision of assurance to the Board on risks associated with delivering the regulatory programme. While ACGC retains oversight of the full internal audit programme, RGC retain the option to consider those audits that focus specifically on regulatory decision making. In order to help alignment between ACGC and RGC, I am a member of RGC. Our terms of reference also acknowledge the need to align ACGC's work with that of the other Board Committees.
9. On membership, following his appointment as Chair of Healthwatch England in October 2018, Robert Francis stepped down from membership of ACGC. Mark Saxton and Jora Gill were appointed to the Committee from March 2019 (and to the ACGC sub-group on Change). Our independent member, Linda Farrant, will finish her term of appointment to the Committee in July 2019. We are very grateful to Linda for her work and input since her appointment in 2015 and she will be missed. We will be recruiting to replace Linda. The current Committee membership is as follows:
 - Paul Rew (Chair of ACGC and CQC non-executive Board member)
 - John Oldham (CQC non-executive Board member)
 - Mark Saxton (CQC non-executive Board member)
 - Jora Gill (CQC non-executive Board member)
 - Linda Farrant (independent external member)
10. The Committee is supported by the Head of Internal Audit and the shared Health Group Internal Audit Service and also regularly benefits from the attendance of the

Chief Executive, the Chief Operating Officer, the Director of Finance, Commercial and Infrastructure, the Director of Performance, Change and Improvement and the recently appointed Chief Digital Officer. Representatives from the National Audit Office also regularly attend. The agenda, papers and minutes of all meetings are routinely supplied to the Department of Health & Social Care.

Our work

11. During the year, the Committee provided advice and assurance to the Board through:
- Regular review of strategic and high level operational risks that face CQC;
 - Oversight of CQC activity on management of assurance through ensuring that robust systems, frameworks and processes are in place to manage the business and drive improvement (this is distinct from the process of CQC performance reporting);
 - Scrutiny and approval of the annual programme of risk based internal audits and monitoring the effectiveness and timeliness of completion of management actions;
 - Review and oversight of CQC counter-fraud and information security arrangements;
 - Scrutiny of the range of activity taking place across the Change programme, including digital, people and quality improvement;
 - Oversight of Healthwatch England's governance and risk assurance arrangements;
 - Review and oversight of preparation of the CQC Annual Report and Accounts for approval by the Board, including the Accountability Report, the Performance Report and the Financial Statements;
 - A full list of topics covered is included in Appendix 1.

Main themes

12. Our last annual report highlighted the challenges around ensuring that CQC's agile strategy was embedded into the entirety of the organisation so that it matched the changing landscape of health and social care, not just digitally but in all aspects of CQC business. During the year, management have made good progress in developing the scoping, planning and resourcing of the large portfolio of projects. Some smaller but important elements of improving our technology capabilities have already been delivered. Good progress has been made on implementing processes and structures to enable effective management of the portfolio overall, something which will be crucial to the success of the transformation effort. Big challenges lie ahead, as the breadth and scope of change activity develops and is implemented and given the rapid pace of development in the wider environment. At times during the year, the Committee has raised concerns around receiving assurance that change activity would deliver strategic aims. Following further detailed scrutiny, particularly through the sub-group and further discussion at Board, these concerns are being addressed but the challenge will continue and likely be at the top of our agenda throughout the next year.
13. 18 audit reviews have been completed during 2018-19 (2017/18: 18). Of these reports for which formal ratings were issued, 1 was rated substantial (2017/18: 2), 10 were rated moderate (2017/18: 10), 1 was limited (2017/18: 2), Others were advisory and so not rated (2017/18: 4). Progress continues to be made and lessons learned across the organisation. Where there are areas of concern from the report with a 'Limited' rating, we will continue to keep it under close review. More details can be found in the Head of Internal Audit opinion which is included in the Annual Report and Accounts.

14. The Limited Assurance finding was in respect of the action to improve the timeliness of preparation of inspection reports. We had a helpful session with Professor Ted Baker, the Chief Inspector of Hospitals to look in more detail at this issue and activity to address it. Further discussion has also taken place at Board and performance data now shows that there has been improvement. We look to see that this improvement will be maintained.

Strategic risk management

15. The Committee is assured that the strategic risk management process effectively identifies risk and appropriate mitigating actions are planned. An internal audit review of a safeguarding incident found a good focus on management consideration of risk but drew attention to the risk management culture in the organisation below management level. Colleagues have been working with internal audit to look at ways to address this. In reviewing the corporate register for strategic risks for 2018/19, the Committee was assured that there was appropriate coverage in the register and that there were no risks for which any new and significant concerns arose. We are content that the register is treated as a dynamic document, retaining sufficient flexibility to accommodate new and different risks that may emerge through the year.

Management Assurance

16. The Management Assurance Assessments in CQC provide a wide ranging self-assessment by each directorate of the operation of processes and controls across the organisation. We continue to acknowledge the honesty and openness with which the assessments are completed. Internal audit colleagues have reviewed the assessment process and found it to be positive, with evidence being peer reviewed and a firm commitment to the process within CQC. This was the first year of assessments where scores of 10 had been recorded and we suggested that these areas should be considered to see if there was wider learning that could be shared.

Audit

17. ACGC is charged with agreeing the programme of work of the external and internal auditors and reviewing their findings. During the year we have engaged with the NAO as our external auditors. A clean audit outcome is expected on the annual report and accounts. We have considered the results of their work, enquired about their planned approach and the way they have co-operated with Internal Audit to maximise overall audit efficiency, capture opportunities to derive a greater level of assurance and minimise unnecessary duplication of work. We thank them for their work.
18. In relation to Internal Audit, we have considered and advised on: the annual Internal Audit plan; how well this has supported the Head of Internal Audit's responsibility to provide her annual opinion on the overall adequacy and effectiveness of the organisation's risk management, control and governance processes; the results of Internal Audit work; and tracking management response to recommendations made by that work.
19. Two areas, highlighted in internal audit reports, were the timeliness of hospital report publication and risk culture below management level in the organisation. There has been Board level consideration of the publication of hospital reports and there has been positive progress in this area (see paragraph 14 above). As noted above, CQC

colleagues are looking with Internal Audit colleagues at the issue of risk culture across the organisation and we will continue to keep this under review.

20. ACGC will again formally review the quality of internal and external audit in the coming months.

Other areas

21. *Change portfolio* – The Committee has continued to review and comment on governance around the change programme. We have emphasised the importance of embedding the control processes in a move towards a more mature governance framework and for a more integrated approach that facilitates agile working across CQC, not just around areas specifically related to digital. We acknowledge the significant amount of work that is taking place but, during the year, we specifically sought greater assurance around inter-dependencies across the portfolio of work. To help us in this, Jora Gill and Mark Saxton joined ACGC and a sub-committee was formed to focus on the change and improvement programme. Progress has been made but we will continue to keep this under close review.
22. *National Audit Office (NAO)/ Public Accounts Committee (PAC) action plan* - The Public Accounts Committee published a report on 9 March 2018 making recommendations for CQC. This followed Sir David Behan giving evidence to the Committee in December 2017 and before that, a report from the [National Audit Office in October 2017](#), which concluded that CQC had made "substantial progress" in strengthening the way it regulated services. The latest report recognised further improvement and recommendations were combined with earlier actions arising from the NAO report on CQC into a single action plan. ACGC has overseen progress on behalf of the Board and was assured that action has now been completed or is being addressed as part of the wider ongoing conversation around quality improvement. We noted that CQC wrote to the PAC in April 2019 to update on the Committee recommendations.
23. *Becoming intelligence driven* – As the health and social care develops, the way CQC uses intelligence in its regulatory activity will be of key importance. We have spent time with colleagues from the Intelligence team to look in detail at the work, its relationship to Quality Improvement work and wider links with the change programme. We have emphasised the importance of related cultural change in the way that colleagues use data and how it is best presented. We will continue to keep this area under review.
24. *Expenses for home workers and employees with more than one place of work*: There is a potential HMRC tax liability as a result of HMRC's investigation into expenses for home workers and employees with more than one place of work. CQC practice complied fully with HMRC rules as previously understood. Discussions with HMRC are ongoing but, at this stage, a clear standard has not emerged and it is difficult to exactly assess any potential liability.
25. *Fee income and debt position*: The Committee spent some time considering the impact on CQC's debt position of the increase in fees in the move to almost full chargeable cost recovery and wider resource pressure in the health and care sector. We were assured that work is being undertaken to ensure efficient recovery and that this was not a material issue in end of year accounting. We also discussed with the

management and external auditors the disclosures of chargeable and non-chargeable activities in the Annual Report and Accounts

Conclusion

26. Based upon our work over the year, the Committee is content that the assurances provided by management, Internal Audit and External Audit are sufficiently reliable and comprehensive in meeting the needs of the Board and the Accounting Officer and that significant findings have been included in Annual Report and Accounts considered by ACGC (including the Governance Statement).

Attachments

Appendix 1 – Committee business during the year and summary of attendance

Paul Rew
Chair, Audit and Corporate Governance Committee
30 May 2019

Appendix 1

Committee business 2018/19

ACGC annual report to the Board 2018/19
Approval of internal audit arrangements for 2019/20
Approval of Internal Audit plan for 2019/20 and tracking the implementation of audit recommendations
Counter fraud, bribery and corruption: twice yearly report
CQC 2018/19 Annual report and accounts: proposed structure and timetable
CQC 2018/19 Annual report and accounts: draft narrative and financial statements
Draft Annual Assurance report from the Head of Internal Audit
External audit: audit completion report and audited accounts
External audit: Interim progress report on the 2017/18 financial statement audit
Finance – Review of depreciation policy; Adoption of new accounting standards: Debt position
Governance - Change management; digital transformation
Healthwatch England update
Intelligence driven: risk around collection and analysis
Internal audit reports: Regular progress updates, including CQC response and detailed consideration of some reports where appropriate
Management assurance assessments
National Audit Office / Public Accounts Committee: Action plan to address recommendations
Strategic risk report
Strategic and high level operational risk registers 2019/20

Summary of attendance at ACGC meetings

	Oct 18	Jan19	Apr 19	Jun 19
Paul Rew (Chair)	✓	✓	✓	✓
Linda Farrant	✓	✓	✓	✓
Sir John Oldham	✓	✓	✓	✓
Mark Saxton			✓	✓
Jora Gill			x	X

Summary of attendance at ACGC sub-group meetings

	Mar 19	Apr19	May19	Jun 19
Paul Rew (Chair)	✓	✓	✓	✓
Linda Farrant	✓	✓	✓	✓
Sir John Oldham	✓	✓	✓	✓
Mark Saxton	✓	✓	✓	✓
Jora Gill	✓	✓	x	X