

**MINUTES OF A MEETING OF THE MONITOR AUDIT AND RISK COMMITTEE HELD ON 2
JULY 2013 AT 10.00 AT 4 MATTHEW PARKER STREET,
LONDON SW1H 9NP**

Present:

Keith Palmer, Audit and Risk Committee Chair, Non Executive Director
Sigurd Reinton, Non Executive Director

In attendance:

Internal Auditor - KPMG

Andy Sayers, Head of Internal Audit
Jo Sheppard, Internal Audit Manager

External Auditor – National Audit Office (NAO)

Martin Burgess, Audit Manager
Kate Mathers, Director

Monitor

David Bennett, Interim Chief Executive
Robert Davidson, Director of Finance Reporting
Jason Dorsett, Financial Reporting and Risk Director
Philippa Harding, Board Secretary
Stephen Hay, Managing Director of Provider Regulation
Steven Murray, Head of Internal Finance

Executive officers attended the meeting as detailed under specific agenda items below.

1. Welcome and apologies

1.1 No apologies for absence had been received.

2. Declarations of interest

2.1 No interests were declared.

**3. Minutes and matters arising from the meeting held on Wednesday 22 May 2013
(ARC/13/17)**

3.1 It was suggested that paragraph 8.1 of the minutes of the meeting held on Wednesday 22 May 2013 should be amended to reflect that the report presenting the key messages from Monitor's corporate risk register for Q4 2012/13 was the last one to be made against the goals and strategies set out in the organisation's 2012/13 Business Plan and the last one in the current format. Subject to this amendment, the minutes were approved and the matters arising were noted.

4. KPMG Internal Audit Reviews:

(i) Human Resources (ARC/13/18(i))

- 4.1 The Committee noted the report which set out the results of KPMG's internal audit review of Monitor's processes and controls in relation to recruitment, retention and resourcing issues, together with management's responses to the Performance Improvement Observations (PIOs) identified by KPMG. Overall the report had been given a medium risk rating, with three medium priority and two low priority PIOs.
- 4.2 In considering the issues and actions highlighted within the report, Audit and Risk Committee members noted that Monitor's new Executive Director of Organisational Transformation had very recently joined the organisation. As an early priority, she would be leading work on revising Monitor's employee value proposition. This consisted of a number of related organisational policies setting out Monitor's approach to reward and recognition, flexible working and professional development and would address the majority of the issues and actions raised in the report.

(ii) Assessment (ARC/13/18(ii))

- 4.3 The Committee noted the report which set out the results of KPMG's internal audit review of Monitor's processes and controls in relation to its Assessment function, together with management's responses to KPMG's PIOs. Overall the report had been given a low risk rating, with two low priority PIOs raised.
- 4.4 Audit and Risk Committee members noted the importance of ensuring that the processes and controls in place relating to Monitor's Assessment function were as robust as possible and welcomed the low risk rating that had arisen from the review. It was noted that the Assessment function had been thoroughly tested in relation to Monitor's decision to authorise Mid Staffordshire and University Hospitals of Morecambe Bay as NHS Foundation Trusts. The processes used had been considered to be robust and followed appropriately and the focus of public scrutiny had been the judgements reached in both of these cases.

5. Internal Audit Progress Report (ARC/13/19)

- 5.1 Audit and Risk Committee members noted the report which provided an update on the progress of internal audit work undertaken since the last meeting of the Committee.

6. Internal Audit Annual Report and Opinion (ARC/13/20):

- 6.1 Andy Sayers presented the report which provided the Audit and Risk Committee and Accounting Officer with an opinion on the adequacy and effectiveness of Monitor's risk management, internal control and governance processes. The Committee noted that, in the opinion of the internal auditors, Monitor had adequate and effective risk management, control and governance processes to manage the achievement of its objectives. It was considered that the most significant risk for Monitor in the future would be the continued readiness of the future control environment, as Monitor's new role evolved. Continued focus would be required on the manner in which the changes to governance and control that had been implemented in 2012/13 were operating in 2013/14.
- 6.2 It was noted that the 2012/13 internal audit plan provided for eight audits. During that period six reports had been issued. Following discussion with the Chief Executive, the

communications review had been deferred until 2013/14 to better align with the strategic planning process that was currently in process. The review of information security had been completed and was in the process of being finalised. Audit and Risk Committee members were assured that KPMG were satisfied that sufficient internal audit work had been undertaken to allow a reasonable conclusion to be drawn. The outstanding report would be submitted to the next Audit and Risk Committee meeting. The 2013/14 internal audit plan would also be submitted to that meeting.

7. Monitor – Audit Completion Report (including Management Letter) on the 2012/13 financial statement audit (ARC/13/21)

- 7.1 Martin Burgess introduced the report which summarised the key matters arising from the NAO's audit of the 2012/13 financial statements. It was noted that the Comptroller and Auditor General anticipated certifying the 2012/13 financial statements with an unqualified audit opinion, without modification.
- 7.2 It was noted that, during the audit, two misstatements had been identified, which had subsequently been adjusted. A number of other misstatements remained uncorrected, as management did not consider them material in the context of all the financial statements. Audit and Risk Committee members were content with the reason provided for not adjusting the misstatements identified by the NAO.

8. Monitor's 2012/13 Annual Report and Accounts (ARC/13/22)

- 8.1 Audit and Risk Committee members considered the report which included the final draft of Monitor's 2012/13 annual report and accounts, setting out the changes that had been made to these since they had previously been reviewed by the Board and the Committee.
- 8.2 A number of detailed comments were suggested with regard to the wording of the annual report. It was also noted that the annual governance statement had been amended to reflect the potential implications for Monitor's regulatory processes of the review undertaken by Grant Thornton of CQC's handling of issues relating to University Hospitals of Morecambe Bay NHS Foundation Trust.

RESOLVED:

- 8.3 Subject to the drafting points raised in relation to the annual report, for amendment prior to the report's completion, the Audit and Risk Committee resolved to approve the annual report and accounts 2012/13.

9. NHS Foundation Trusts: Consolidated Accounts 2012/13 (ARC/13/24)

Ian Ratcliffe (Lead Technical Accountant) joined the meeting for this item.

- 9.1 Robert Davidson introduced the report which presented the consolidated NHS Foundation Trust (FT) accounts for 2012/13. The consolidated NHS FT accounts had been circulated to the Board at the same time as the Audit and Risk Committee. A number of detailed adjustments had been made to the accounts since their circulation to the Committee and information about these changes was tabled.
- 9.2 It was noted that Paragraph 17 of Schedule 8 to the Health and Social Care Act 2012 required Monitor to prepare consolidated NHS FT accounts and send a copy to the Secretary of State for Health. The Secretary of State had not directed the content and form of the 2012/13 consolidated accounts nor had he directed Monitor to send them to the

Comptroller and Auditor General for audit ahead of the accounts being laid before Parliament. However, as the NHS FT consolidated accounts had been laid before Parliament in previous years and it was understood that they would be required to be laid by the accounts direction in future years, arrangements had been made to lay the 2012/13 consolidated accounts before Parliament.

9.3 In light of the Audit and Risk Committee's interest in the high level of impairments recorded by NHS FTs in 2012/13, it was reported that the NAO and Monitor had corresponded with all NHS FT auditors to draw their attention to the level of impairments being higher than expected across the sector and for them to consider whether sufficient audit attention had been given to this area. Work had also been undertaken with regard to the reasons behind the largest impairments in order to allow information on the key types of impairments to be provided in the management commentary in the consolidated accounts.

9.4 Audit and Risk Committee members considered the manner in which Private Finance Initiative (PFI) schemes were reported in the consolidated NHS FT accounts. It was noted that the vast majority of PFI schemes were on-balance sheet and, as such, both the assets and debt were included on the balance sheet. There were a small number of off-balance sheet PFI schemes, due to the nature of the contracts that had been negotiated in each case.

RESOLVED:

9.5 The Audit and Risk Committee approved the NHS Foundation Trust consolidated accounts for 2012/13.

10. Consolidation of NHS Foundation Trusts Account – Audit Completion Report on the 2012/13 financial statement audit (ARC/13/23):

- 10.1 Kate Mathers introduced the report which summarised the key matters arising from the NAO's audit of the NHS FT consolidated financial statements. It was noted that the Comptroller and Auditor General anticipated certifying the statements with an unqualified audit opinion and without modifications.
- 10.2 It was noted that, as a result of the NAO's audit, adjustments had been made to the draft financial statements. There were also a number of unadjusted errors which were not considered material in the context of the financial statements as a whole.
- 10.3 Audit and Risk Committee members were informed that there might be a requirement for the NHS FT consolidated accounts to have a formal regularity opinion as part of its audit certificate in future years if this was the case. Monitor would need to ensure that systems were in place in order for the Accounting Officer to attest that the income and expenditure recorded in the consolidated financial statements was regular and that Monitor had in place appropriate processes and controls to provide assurance that this was the case. It was reported that work would be undertaken to clarify the scope of regularity in the context of the NHS FT sector and the nature of the evidence, controls and assurance Monitor required to provide assurance that the consolidated accounts were regular. Audit and Risk Committee members noted that should it be determined that individual NHS FT accounts required regularity opinions, this might lead to additional audit costs being faced by the NHS FT sector.

11. Any other business

- 11.1 Audit and Risk Committee members were informed that DH had requested sight of all Non Departmental Public Bodies' risk reports.
- 11.2 Progress was being made with regard to the recruitment of the Independent Member of the Audit and Risk Committee. It was hoped that they would be in place for the next meeting of the Committee. Committee members also noted that the Board would be considering adding an additional Non-executive Director to the membership of the Committee as part of its evaluation work at the end of the year.
- 11.3 Both the NAO and KPMG confirmed that they did not require a private meeting with the Audit and Risk Committee.
- 11.4 The Audit and Risk Committee received an update on the provision of internal audit services in 2013/14 and beyond.

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