

**To:** The Board

**For meeting on:** 30 July 2014

**Agenda item:** 12

**Report by:** Keith Palmer, Audit and Risk Committee Chair

**Report on:** Audit and Risk Committee meeting on 21 May 2014

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**Summary:**

1. The Chair of Audit and Risk Committee reports on its work to the Board after every meeting of the Committee. This report provides the Board with an update on the key issues considered by the Audit and Risk Committee at its meeting on Wednesday 2 July 2014. The minutes of the meeting are attached as an Annex to this report.

**Issues**

Internal audit work

2. The Committee reviewed internal audit reports on:

- Contingency Planning Teams / Trust Special Administrators
- Assessment
- Strategic Information Platform
- Corporate Governance
- Provider Regulation and Risk Assessment Framework

3. Those reports which were risk rated (as the first was a lessons learned report, so wasn't risk rated) were identified as either low or medium risk.

4. A number of internal audit review reports remained outstanding at the time of the meeting (Co-operation and Competition, Pricing and Follow Up Audits). The Committee was assured by KPMG that the work had been undertaken to complete these audit reviews and that the reports were in the process of being finalised. The reports are due to be circulated to Audit and Risk Committee members in correspondence and an oral update will be provided at the Board meeting.

1.1 For 2014/15 onwards, Monitor's internal audit function will be provided by the Department of Health's Health Group Internal Audit Service. The Audit and Risk

Committee was provided with an initial view of the internal audit priorities for 2014/15. The areas for internal audit focus in 2014/15 were discussed. Partner relationships, communications and pricing were identified as priority areas. The final internal audit programme will be submitted to the Audit and Risk Committee for sign off at its meeting in September, but work will be undertaken by the internal auditors on core corporate systems in the meantime, in order to ensure that the work is carried out in good time.

#### Monitor's Annual Report and Accounts 2013/14

5. The Committee reviewed the Head of Internal Audit's opinion that Monitor had adequate and effective risk management controls and governance processes in place to manage the achievement of its objectives and the fact that the Comptroller and Auditor General anticipated certifying Monitor's 2013/14 financial statements with an unqualified audit opinion and without modification. Having done this the Committee reviewed the 2013/14 annual report and accounts, including the annual governance statement and confirmed that it was content to recommend that they be signed off by the Accounting Officer.

#### NHS Foundation Trusts: consolidated accounts 2013/14

6. The Committee noted the fact that the Comptroller and Auditor General anticipated certifying the financial statements set out in the NHS foundation trust consolidated accounts 2013/14 with an unqualified audit opinion and without modifications. Having done this the Committee was content to recommend that they be signed off by the Accounting Officer.

#### Whistleblowing review

7. Audit and Risk Committee members reviewed the outline scope for a whistleblowing review. The Committee has identified whistleblowing as one of its priorities for 2014/15 and the aim of the review is to ensure that Monitor's internal and external whistleblowing policies are operating as effectively as possible. The review will focus on the policies that are in place, key individuals' experiences and perceptions of how they are operating, consideration of best practice benchmarks and whether any improvements are required with regard to Monitor's internal operations. It will take account of the independent review into creating an open and honest reporting culture in the NHS, chaired by Sir Robert Francis QC, which is due to complete its work in November 2014

**Keith Palmer**  
**Audit and Risk Committee Chair**

**ANNEX A**

**MINUTES OF A MEETING OF THE MONITOR AUDIT AND RISK COMMITTEE HELD  
ON 7 JULY 2014 AT 10.00  
AT WELLINGTON HOUSE, 133-155 WATERLOO ROAD, LONDON SE1 8UG**

**Present:**

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

**In attendance:**

**External Auditor – National Audit Office (NAO)**

Martin Burgess, Audit Manager  
Kate Mathers, Director

**Internal Auditors - (KPMG)**

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

**Internal Auditors - (Health Group Internal Audit Service)**

Ian Looker, Head of Internal Audit  
Susan McNair, Internal Audit Manager

**Monitor**

David Bennett, Chief Executive  
Jason Dorsett, Financial Reporting and Risk Director  
Joan Hanham, Chairman  
Philippa Harding, Board Secretary  
Stephen Hay, Managing Director of Provider Regulation  
Toby Lambert, Director of Strategy and Policy  
Steven Murray, Head of Internal Finance

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

**2. Welcome and apologies**

2.1 Apologies for absence had been received from Adrian Masters (Managing Director of Sector Development).

### **3. Declarations of interest**

3.1 No interests were declared.

### **4. Minutes and matters arising from the meeting held on Wednesday 21 May 2014 (ARC/14/15)**

4.1 The minutes were approved and the matters arising noted.

### **5. KPMG Internal Audit Reviews (ARC/14/16)**

#### **(i) Contingency Planning Teams / Trust Special Administrators (ARC/14/16(i))**

5.1 The Committee noted the report which set out the results of KPMG's internal audit review of adherence to Monitor's processes in relation to the appointment and management of Contingency Planning Team (CPT) and Trust Special Administration (TSA) activities, focussing on the effectiveness of the processes followed by Monitor within the existing continuity of service regime. The report had not been allocated a risk rating in light of its developmental nature.

5.2 The Committee noted that the report was one part of a wider programme of work being undertaken by Monitor to ensure that all relevant lessons were learned in relation to its early experience of the CPT and TSA processes. This information would be fed into a review of the organisational design of the Provider Regulation directorate that was due to be undertaken by the end of the year, in order to ensure that it remained fit for purpose.

#### **(ii) Assessment (ARC/14/16(ii))**

5.3 Audit and Risk Committee members noted the report of KPMG's internal audit review of the operation of Monitor's assessment processes. One Performance Improvement Observation (PIO) had been identified. Overall the report had been given a low risk ("green") rating.

#### **(iii) Strategic Information Platform (ARC/14/16(iii))**

5.4 The Committee considered the report of KPMG's internal audit review of Monitor's Strategic Information Programme. Three medium priority PIOs had been identified and overall the report had been given a medium ("amber") risk rating. The report's conclusion was that Monitor had established the basis of a good Programme and Project Management framework; however further work was required. KPMG confirmed that this was not concerning given the early stage at which the Programme currently was.

#### **(iv) Corporate Governance (ARC/14/16(iv))**

5.5 Audit and Risk Committee members noted the report of KPMG's internal audit review of Monitor's corporate governance framework, focussing in particular on its risk management processes. One medium priority and three low priority PIOs had been identified and overall the report had been given a low ("green") risk rating.

**(v) Provider Regulation and Risk Assessment Framework (ARC/14/16(v))**

5.6 The Committee reviewed the report of KPMG's internal audit review of Monitor's Provider Regulation functions and Risk Assessment Framework. Five low priority PIOs had been identified and overall the report had been given a medium ("amber") risk rating. KPMG confirmed that the governance framework, decision-making and operational processes within the Provider Regulation directorate were considered to be functioning effectively following the transition to the Risk Assessment Framework and that the PIOs had been identified as opportunities to fully embed the Risk Assessment Framework transition and enhance the overall control environment. The overall risk rating of the review resulted from considering the PIOS alongside outstanding prior year observations.

**(vi) Co-operation and Competition (ARC/14/16(vi))**

**(vii) Follow Up Internal Audits (ARC/14/16(vii))**

5.7 These items were removed from the agenda and would be circulated to the Audit and Risk Committee in correspondence.

**6. Internal Audit Annual Report and Opinion (ARC/14/17)**

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 role continued to evolve. Internal audit work in 2014/15 had suggested that this appeared to be evolving in a well controlled and thoughtful manner.

6.2 It was noted that, of the internal audit reviews planned for 2014/15 the reports of a number of these (Pricing, Co-operation and Competition and Follow Up Internal Audits) remained to be submitted to the Audit and Risk Committee for consideration. KPMG confirmed that in each case the audit work had been completed and the draft reports were with management for checking and response. The Committee requested that the final reports be circulated in correspondence ahead of the next Board meeting.

**ACTION: PH**

**7. Monitor – Audit Completion Report (including management letter) on the 2013/14 financial statement audit (ARC/14/18)**

Ian Ratcliffe (Head of Sector Financial Accounting) joined the meeting for the consideration of this item.

7.1 Martin Burgess introduced the report which summarised the key matters arising from the NAO's audit of the 2013/14 financial statements. It was noted that the Comptroller and Auditor General anticipated certifying the 2013/14 financial statements with an unqualified audit opinion, without modification.

7.2 Audit and Risk Committee members considered the significant risks to the 2013/14 financial statements that had been identified in the NAO's audit planning report of November 2012 and the actions taken by the NAO in order to test these. The findings of this work were discussed.

## **8. Consolidation of NHS Foundation Trust Account – Audit Completion Report on the 2013/14 financial statement audit (ARC/14/20)**

Ian Ratcliffe (Head of Sector Financial Accounting) was in attendance for the consideration of this item.

8.1 Kate Mathers introduced the report which summarised the key matters arising from the NAO's audit of the NHS foundation trust (NHSFT) consolidated financial statements. It was noted that the Comptroller and Auditor General anticipated certifying the statements with an unqualified audit opinion and without modification, subject to satisfactory clearance of a number of outstanding audit matters that required completion.

8.2 Audit and Risk Committee members were informed that 2013/14 was the first year in which there was a requirement for the NHSFT consolidated accounts to have a formal regularity opinion as part of its audit certificate. Monitor had ensured 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 appropriate processes and controls were in place to provide assurance with regard to this. It was noted that the auditors of two NHSFTs had reported that they had identified severance payments in excess of contractual terms which had not received approval from HM Treasury. Monitor was engaging with these two NHSFTs to obtain retrospective HM Treasury approval for these payments as a matter of priority. Consideration was also being given to what preventative measures could be implemented to avoid any recurrence of the situation.

8.3 Consideration was given to the trends identified across the NHSFT sector, such as risk and control issues. The analysis of balances by counterparty was discussed. Audit and Risk Committee members discussed whether there was a correlation between an increase in the current receivables in relation to clinical commissioning groups and NHS England and bad debt exposure for NHSFTs. It was reported that, whilst bad debt had increased in 2013/14, it was not at the same level as the identified receivables.

## **9. Monitor's 2013/14 annual report and accounts (ARC/14/19)**

Ian Ratcliffe (Head of Sector Financial Accounting) was in attendance for the consideration of this item.

9.1 Audit and Risk Committee members considered the report which included the final draft of Monitor's 2013/14 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. A small number of proposed further changes were reported orally.

**RESOLVED:**

9.2 Subject to the minor drafting points raised, to be addressed prior to the report's completion, the Audit and Risk Committee approved the 2013/14 annual report and accounts.

**10. NHS Foundation Trusts: consolidated accounts 2013/14 (ARC/14/21)**

10.1 The Audit and Risk Committee discussed the report which presented the consolidated NHSFT accounts for 2013/14.

10.2 It was noted that a number of adjustments had been made to the draft financial statements following their circulation to the Audit and Risk Committee. Information about these was tabled. 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.

10.3 The implications of the consolidation of NHSFT charities were discussed. Collectively NHSFTs with consolidated NHS charity in their accounts had net assets of £339m. This was material for the consolidated account and so a full restatement was performed in line with accounting standards.

**RESOLVED:**

10.4 The Audit and Risk Committee approved the NHS Foundation Trust consolidated accounts for 2013/14.

**11. Whistleblowing Review (ARC/14/23)**

11.1 Philippa Harding presented the report which provided the Audit and Risk Committee with an outline scope for a whistleblowing review. The Committee had identified whistleblowing as one of its priorities for 2014/15 and the aim of the review was to ensure that Monitor's internal and external whistleblowing policies were operating as effectively as possible.

11.2 Audit and Risk Committee members discussed the methodology to be used in undertaking the review. The value in interviewing a wide range of both external stakeholders and staff about their experience of Monitor's whistleblowing policies was noted. If possible contact should be made with those who had acted as whistleblowers to determine their experiences of the policy.

11.3 The relationship was noted between the review and that to be undertaken by Sir Robert Francis QC on behalf of the Secretary of State for Health into creating an open and honest reporting culture in the NHS. Audit and Risk Committee members advised that the review should take account of this independent review. It was also considered useful that whistleblowing arrangements in other non-NHS organisations

should be identified in order to consider possible alternative approaches for Monitor in the future.

## **RESOLVED:**

- 11.4 The Audit and Risk Committee resolved to agree the proposed scope of the whistleblowing review, subject to the comments above.

## **12. Internal Audit 2014/15 (ARC/14/22)**

Audit and Risk Committee members thanked the representatives of KPMG for the work that they had provided in relation to Monitor's internal audit service and they left the meeting at this point.

- 12.1 Ian Looker and Susan McNair tabled a paper which provided the Audit and Risk Committee with an initial view of the internal audit priorities for 2014/15. Audit and Risk Committee members considered the themes identified and potential reviews to be undertaken.
- 12.2 In discussing the areas for internal audit focus in 2014/15, the Audit and Risk Committee referred to the partner relationships that were required between Monitor, the Care Quality Commission, the NHS Trust Development Authority and NHS England. Monitor's new responsibilities and its growth as an organisation were highlighted as requiring ongoing focus. It was suggested that the communication of Monitor's decisions might be a priority for 2014/15, similarly its information technology arrangements and its Pricing function. It was confirmed that further work would be undertaken to complete the plan, for submission to the next meeting of the Audit and Risk Committee. The Committee was content that work required in relation to core corporate systems and assurance mapping could begin ahead of the finalisation of the internal audit plan, in order to avoid too much work having to take place at the end of the financial year. It was proposed that in due course a multi-year internal audit plan should be developed.

## **13. Any other business**

- 13.1 Audit and Risk Committee members noted the Board workshop on risk that had been arranged to take place on 7 November 2014. The value of having a review of progress being made in relation to the organisation's risk management processes ahead of this was noted.

**Close**