

**MINUTES OF A MEETING OF THE MONITOR AUDIT AND RISK COMMITTEE HELD ON 21
MAY 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
Sigurd Reinton, Non Executive Director

In attendance:

External Auditor – National Audit Office (NAO)

Martin Burgess, Audit Manager
Kate Mathers, Director

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
Adrian Masters, Managing Director of Sector Development
Steven Murray, Head of Internal Finance

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

1. Welcome and apologies

1.1 Apologies for absence had been received from Andy Sayers (Head of Internal Audit, KPMG) and Jo Sheppard (Internal Audit Manager, KPMG).

2. Declarations of interest

2.1 No interests were declared.

**3. Minutes and matters arising from the meeting held on Wednesday 19 February 2014
(ARC/14/07)**

3.1 The minutes were approved and the matters arising noted.

4. Monitor 2013/14 draft accounts and audit update (ARC/14/08)

- 4.1 Audit and Risk Committee members considered the report which accompanied Monitor's pre-audit 2013/14 draft annual accounts, setting out a summary of the main changes in the presentation of the draft accounts from 2012/13 and the key points to note.
- 4.2 Consideration was given to the fact that Monitor had chosen to divide its activities into four reportable segments (relating to Monitor's core running costs; contingency planning work (CPT); Trust Special Administration (TSA); and Special Measures). It was noted that these segments were used by the executive to manage and report expenditure throughout the year and so were required to be reflected in the annual financial statement.
- 4.3 The level of Monitor's cash and cash equivalent assets as at 31 March 2014 was discussed. It was noted that the organisation had to hold cash relative to the liabilities it faced with regard to trade and other payables. The difference between the organisation's current assets and current liabilities was not considered to be significant.
- 4.4 Committee members noted the report provided by the NAO with regard to the progress of the audit of the 2013/14 draft annual accounts, which summarised the key matters from the NAO's interim audit fieldwork visit. It was reported that the planned audit was expected to be completed in accordance with the original timetable and that the NAO had not identified any significant concerns. The Audit and Risk Committee discussed the minor issues that had been identified by the NAO during its audit work, including reconciliations with the general ledger. It was emphasised that a number of technical issues relating to the organisation's accounting system were in the process of being addressed. With regard to the allocation of ring-fenced budgets such as reimbursement costs for "Buddy Trusts" for those in Special Measures, it was proposed that an accounting policy should be drafted and further information be made available in the notes to the annual accounts.
- 4.5 Audit and Risk Committee members confirmed that they were content with the pre-audit 2013/14 draft annual account.

5. Monitor 2013/14 draft Annual Governance Statement (ARC/14/09)

- 5.1 The Audit and Risk Committee considered the report which accompanied Monitor's draft Annual Governance Statement. The Annual Governance Statement would be included with the 2013/14 annual report and accounts.
- 5.2 Subject to a number of minor drafting issues, Audit and Risk Committee members confirmed that they were content with the draft 2013/14 draft Annual Governance Statement.

6. Q4 Risk Report (ARC/14/10)

Das Mootanah (Risk and Performance Director) joined the meeting for the consideration of this item.

- 6.1 Audit and Risk Committee members considered the report which provided an update on the progress made in the fourth Quarter of 2013/14 (Q4) on the organisation's overall risk management framework, as well as covering the status of Monitor's current corporate risk profile as at the end of Q4.

6.2 The Committee considered the top five organisational risks identified in the report, together with the proposed mitigations. In particular, the Committee discussed the risks associated with Monitor's role in turning around troubled NHS foundation trusts (NHS FTs) and in relation to the financial challenges that were expected to face the NHS in the coming years. Committee members emphasised the significance of these risks and the importance of the identified mitigations. The Committee was informed of further actions that Monitor was already undertaking to address these risks and those which it planned in the future. As well as working with the health care sector to enable trusts to realise appropriate productivity improvements, Monitor was also working with its regulatory partners to plan further how the best outcomes for patients could be achieved, should trusts face financial failure.

6.3 Audit and Risk Committee members noted the approach taken with regard to executive/directorate level risk reviews. Each directorate had assessed its own risk profile, with support and constructive challenge from the Risk and Performance Team, with material risks escalated for consideration.

6.4 With regard to the progress of and proposed priorities for the Risk and Performance Management team, the Committee was content. It was noted that the organisation's risk management policy was being reviewed and updated to ensure that it remained effective in identifying and managing risks. Audit and Risk Committee members were content that the proposed high level policy appropriately set the cross-organisational tone and culture for managing risks proactively. It was proposed that further reference should be made to the importance of operating the policy in line with the Board's appetite for risk. It was proposed that, in line with the further development of the organisation's risk management framework, the Board's risk appetite should be tested with regard to particular outcomes.

7. Internal audit progress update (ARC/14/11)

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

7.2 It was noted that one of the draft internal audit reports that had been issued had remained unresolved for a significant period of time. Consideration was given to the possible reasons for this delay. The Committee was informed that all efforts were being made to conclude this report. In light of the fact that the Head of Internal Audit Opinion was to be presented at the next meeting of the Audit and Risk Committee, it was requested that all outstanding internal audit reports be circulated to the Committee for consideration in correspondence. Committee members would be asked to identify in correspondence any issues which they wished to address at the meeting on 2 July 2014.

ACTION: PH

7.3 Audit and Risk Committee members were provided with an oral update on the progress of the appointment of Monitor's new Head of Internal Audit. It was noted that candidates would be interviewed by the Committee, with a view to an appointment being made by the end of May 2014. Work had already begun on planning the outline internal audit strategy for 2014/15.

8. Internal Audit Review: Financial Systems and Procurement Review 2013/14 (ARC/14/12)

8.1 The Committee noted the report which set out the results of KPMG's internal audit review of Monitor's core financial systems and its procurement activity, together with the

management responses to KPMG's Performance Improvement Observations (PIOs). Overall the report had been given a low risk rating, with 8 low priority PIOs.

9. Update on identified risks for Consolidated NHS Foundation Trust Accounts 2013/14 (ARC/14/13)

Eleanor Shirliff (Sector Financial Accounting Manager) joined the meeting for the consideration of this item.

9.1 Jason Dorsett presented the report which provided an update on the risks associated with the preparation of the consolidated NHS FT accounts 2013/14. NAO representatives also provided an oral update on the audit of these accounts. It was noted that appropriate steps had been taken in order to manage the identified risks associated with the process and that nothing had come to the attention of the NAO to suggest that it would be unable to complete its audit as expected.

9.2 Audit and Risk Committee members considered the issues that had emerged in the preparation of the consolidated NHS FT accounts. In particular, the Committee discussed the relationship between the accounts and the unaudited figures provided by NHS FTs to Monitor in their final quarterly report of the 2013/14 financial year.

10. Annual Report of the Audit and Risk Committee to the Board (ARC/14/14)

10.1 Philippa Harding presented the report which included the draft report of the Audit and Risk Committee to the Board and asked the Committee to approve its content. It was noted that the report reflected the outcomes of the Audit and Risk Committee's self assessment workshop that took place in March 2014.

RESOLVED:

10.2 Subject to any detailed comments that might be provided in correspondence after the meeting, the Audit and Risk Committee resolved to approve the content of the Committee's Annual Report to the Board.

11. Any other business

11.1 It was noted that the non-executive director who had recently been appointed to Monitor's Board was to be asked to join the Audit and Risk Committee.

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