

Audit Committee**Appendix A**

Minutes of the Audit Committee meeting held on Friday 14 September at 10.00 am in the Board Room at the John Radcliffe Hospital

Present	Mr Alisdair Cameron	AC	In the Chair Non-executive Director Non-executive Director
	Mrs Anne Tutt	AT	
	Mr Christopher Goard	CG	
In attendance	Dame Fiona Caldicott	FC	Trust Chairman
	Mr Mark Mansfield	MM	Director of Finance and Procurement
	Sir Jonathan Michael	JM	Chief Executive
	Ms Eileen Walsh	EW	Director of Assurance
	Mr Richard Wheeler	RW	Deputy Director of Finance (Technical)
	Mrs Clare Winch	CW	Head of Assurance
Audit	Mrs Maria Grindley	MG	Audit Commission
	Mr Michael Yeats	MY	Audit Commission
	Mr Andrew Bostock	AB	KPMG
	Ms Karen Sharrocks	KS	KPMG
Minutes:	Mr Adewale Kadiri	AK	Deputy Head of Corporate Governance
Apologies	None		

Declarations There were no declarations of interest

There were introductions around the table and the Chairman welcomed everyone to the meeting.

AC50/12 Minutes of the Audit Committee meeting held on 13 July 2012

The minutes were approved as an accurate record of the meeting.

AC51/12 Matters Arising

Mr Chris Goard informed the Committee that he had a helpful session with the Deputy Director of Finance in relation to the Trust's methodology for dealing with debtors. He indicated that the Committee would be willing to support the Finance function in engaging a wider audience in relation to the importance of debt management. The Deputy Director thanked the Committee for their support. Sir Jonathan Michael acknowledged that this is an issue on which there needed to be more focus from senior management.

Action (MM):

A paper about debtors and the wider cash control environment is to be brought to the next meeting of the Committee outlining the control environment, assurance in relation to a programme of actions to improve the controls and any further actions that may still be required.

AC52/12 Review of Action Log**AFC65/11 Board Assurance Framework and Trust Risk Register**

The Director of Assurance confirmed that the BAF & TRR was included in the papers and the Committee work programme was to set out the in-depth review schedule.

[18.12.11, 63.11] & AFC4/12 Internal Audit and Counter Fraud Reports

The Chairman confirmed that three elements of these actions were covered in the Internal Audit or counter-fraud plans to be received later in the meeting. The remaining issue in relation to OHIS review of stand-alone systems would be reported to the next meeting.

AFC11/12 Inventory Management and Policies and Procedures

The Director of Finance and Procurement confirmed that this would be included in the Policy Review paper to be brought to the January 2013 meeting of the Committee.

AFC35/12 Annual Report on Counter-Fraud Work 2011/12: Bribery Act 2010

The Director of Finance and Procurement confirmed that this action can be closed as the Bribery Act is included within the Counter Fraud Plan to be introduced later in the meeting. The Counter Fraud specialist confirmed that the work would be completed in October 2012.

AC53/12 External Audit – Annual Audit Letter

Mrs Grindley confirmed that the Committee had received all the messages contained in the letter at previous meetings. The Committee noted the Annual Audit Letter. It was agreed that this would be reported to the Board at the next meeting.

Action (MM)

Annual Audit Letter to be presented to the next Trust Board meeting

AC54/12 External Audit Appointment

Mrs Grindley confirmed that the letter provided formal confirmation of the appointment of Ernst & Young as external auditor. She informed the Committee that this would be her last meeting as an Audit Commission employee, and that from 1 November she would be working with the Trust, as an employee of Ernst & Young. The Committee noted the appointment.

AC55/12 Audit Committee Annual Report

The Director of Finance and Procurement introduced this report. He reminded the Committee that a similar report had been produced last year and that it was good practice to do so. Paragraph 3 highlighted significant issues that the Committee considered during 2011/12. The Chairman suggested that the report should be produced earlier in the year in future. Mrs Tutt indicated that at another organisation that she works with, the annual report is presented to the Board at the same time as the accounts are signed off. The Director of Finance and Procurement stated that the timing was linked to the Annual Audit Letter, but that he has no objection to changing the timetable.

Annex 1 outlined the work programme for 2012/13. Mrs Tutt stated that she expected a summary of governance of the Committee including meeting attendance. The Chairman also stated it would be helpful to remind the Board of the purpose and remit of the Committee, and that the Committee's conclusions should be summarised at the end of the year.

There was some discussion about the items included as significant issues. It was agreed that the report would go to the next Board meeting in November once it has been approved by the Committee, and that Committee members would share comments on the report by email.

Action (RW)

Annual Report to be updated and circulated to Committee members for approval prior to inclusion in Board papers

AC56/12 Annual Audit Timetable

The Chairman expressed satisfaction with the structure as set out in Table 1, but that there was some duplication on the timetable as assurance on some of the issues is already provided by other committees. The Director of Assurance confirmed that the Audit Committee has total oversight of finance and quality, and that the Quality and Finance and Performance Committees would conduct more focused reviews on specific topics on behalf of the Audit Committee. Mrs Tutt suggested that the overview and assurance function ought to stay with the Audit Committee.

The Director of Assurance confirmed that the Committee would continue to have oversight of the Board Assurance Framework and Trust Risk Register, but these documents would go to other committees for review of items in the BAR/TRR that are within their Terms of Reference. It was accepted that there are some issues with the sequencing of meetings at present, and it is agreed that the review of assurance on the quality management agenda be moved to January for this financial year. The Chairman suggested that at each meeting the Committee should consider a "deep dive" on a programmed subject. It was agreed that there were still some practical issues around how this process may work.

Mrs Tutt commented that risk "deep dives" did not appear to have been included in the timetable and queried whether the topics on which these focused reviews are to take place ought to be picked in advance. It was suggested that some areas could be programmed in advance but that the Committee should have the freedom to choose other areas on an ongoing basis. It was agreed that a forward list of areas would be produced which should be drawn from the BAF/TRR, and it was suggested that debtor management could be one of these.

Mrs Tutt suggested that it would be useful to consider the BAF/TRR at each meeting. The Director of Assurance agreed that it be kept as a standing agenda item for each meeting this year, but to be reviewed next year. The Director of Finance and Procurement added that this would provide evidence of progress and embeddedness.

Action (MM/EW):

A programme of risk deep dives is to be drawn up and made clear for the meeting in November, based on the BAF/TRR

The Committee and other attendees made the following additional comments:

- that the item to note the business of other committees be removed from the plan
- Internal Audit Progress Report to be at every meeting except June.
- on draft accounts, it would be prudent to review standing accounting policies in March, and review the impact of Department of Health published changes on the accounts in May.
- it was suggested that Standing Financial Instructions review and accounting policies be separated
- Counter-fraud activity on NFI is not due until February, and as such this should be presented in May.
- It was suggested that Counter-fraud progress reports be presented at each meeting except June.

The Chairman questioned whether there are underlying themes, such as data quality that the Committee ought to focus on. Sir Jonathan Michael suggested that the Committee extract cross-cutting themes and consider them as additional items. The Director of Assurance referred to the BGM challenges and suggested that if the Committee was considering themes, these should be linked back to the Strategic Objectives in order to help assure the Board that these objectives are being delivered.

The Director of Finance and Procurement suggested that the analysis of recommendations from Internal and External Audit could be grouped under a set of themes and that could be used to inform the Audit Committee agenda at each meeting.

The Committee recognised that the plan is a work in progress and agreed that the updated plan be brought back to the next meeting, taking account of comments made above.

Action (MM)

Updated work plan to be brought to the November meeting, taking account of members' comments

[Mr Chris Goard leaves the meeting]

AC57/12 Board Assurance Framework/Trust Risk Register

The Director of Assurance introduced this paper and explained that the BAF/TRR in its current form is a work in progress. She stated that this is the start of the creation of an overview report. The principal risks in the BAF are linked to the Strategic Objectives, with some Strategic Risks covering more than one Strategic Objective. There is also a more explicit link between the BAF and the TRR.

In relation to the Trust's Strategic Risks, the Director of Assurance reminded the Committee that Risk number 7 still required further discussion and debate. The Committee acknowledged the positive progress that has been made on this document, and considered that Risk 7 was a helpful addition to the risks. There was discussion about the sources of assurance as set out in section 4 of the paper. The Committee noted the mismatch between the total sources of assurance recorded and the total assurances noted as reported to the Board to date, and the preponderance of level 1 assurance in the latter. It was suggested that Executive Directors may not be

acknowledging Level 2 and 3 sources of assurance when presenting papers to the Board. A number of other suggestions to improve this element were made by the Committee

Section 5 of the report indicated where there were gaps in controls and assurance. Members suggested that the Committee would like to understand why there was a gap, what action was being taken to address it and if there may be a problem with the process of identifying gaps as a result of the new issue arising.

Section 6 related to risk profile/risk target. The Director of Assurance explained that the purpose of the risk reference grid was to enable the Board to think about the distribution of risks across the organisation. She recognised that this requires more work.

The Chairman indicated that he did not expect sections 2 and 3 to change much, but suggested the inclusion of an additional section to highlight big changes externally which would change the Trust's risk profile over time.

The Committee commended the work that had been done so far, and that it was useful to see risks broken down by cause, effect and impact.

When reviewing the body of the BAF, doubts were expressed about the validity of the gaps in control and gaps in assurance columns within the Assurance Framework. As an example, it was queried whether not achieving CIPs would indicate a gap in control. It was suggested that there would be no gap in controls so long as the breach in delivery remained within agreed tolerances. It was agreed that further consideration of this area was needed.

Sir Jonathan Michael suggested that there should be a proper distinction between the owner of the action plans and the risk owner in the body of the BAF. In relation to Risk 2.1 on page 22 of the Trust Risk Register element of the paper, where the risk rating is noted as improving, members asked if this is being assessed narrowly or broadly in view of the increasingly risky nature of the external environment. Sir Jonathan Michael suggested that the in-year position could be differentiated from the medium to long term position in relation to the risk score.

The Committee received the paper and commented on its contents.

AC58/12 Internal Audit Plan

The plan was introduced by Mr Andrew Bostock, Head of Internal Audit at KPMG. He confirmed that he had held a number of discussions with Executive and Non-Executive Directors, and has been gaining a good understanding of the organisation's key risks and the assurances that are needed. The purpose of the plan was to give a sense of the priorities that had been identified, but Mr Bostock acknowledged that in order for the plan to be effective, it would need to remain a live document. He wanted his team to get out into the organisation, including sitting in on divisional meetings to better understand how governance arrangements at this level work in practice. Mr Bostock highlighted a number of areas for attention:

- Doctors' revalidation – big agenda, but how can the organisation derive benefits from the exercise while also keeping up to date with the programme

- Quality governance – there is clinical input within the audit team, but the focus would be on providing assurance on the wider agenda, not duplicating what the Quality Committee is doing.
- CQC compliance – this would be provided annually
- Data quality – this would be a rolling programme focusing on assurance, strategy and risks
- Divisional governance – assessing divisional grip, and there might be some work around restructuring
- CIPs/QIPP – taking note of and building on the HDD findings
- Clinical Audit – Broader footprint of assurance, considering, with clinical colleagues, the processes, strategic focus and assurance from clinical audit
- SIRIs – assessing the quality of investigations, assurance and learning

Mrs Tutt questioned if it would be possible to deliver 320 internal audit days for 2012/13 with half the year already gone. Mr Bostock accepted that his team would be under pressure, and that there would be a lot of reports delivered in a shorter time period this year, but that this would smooth out over the next year.

The Chairman queried if the Internal Audit risk ratings would evolve over time, and asked if there were any questions about the items that had been prioritised this year. A number of issues not on the plan for this year were raised, including charitable funds, clinical records and health and safety. It was suggested that these could be programmed for early next year. The Chairman queried whether there were any items not on this year's plan that had a bearing on the FT application. The Director of Finance and Procurement indicated that there was a helpful alignment between HDD and the Internal Audit Plan.

The Director of Assurance asked for clarification on what the 10 days earmarked for corporate governance would involve. Mr Bostock mentioned the workings of the Committee structure, and enabling the organisation to benefit from best practice. Sir Jonathan Michael mentioned the audacious savings that partners within the region are seeking to achieve through procurement, and suggested that this be covered earlier in the cycle.

The Committee agreed that progress reports should be produced to the Committee at each meeting. Full reports for each Audit would be sent to the Committee initially, but these would be replaced with executive summaries later. Trend analyses from previous recommendations would also be undertaken and included in the progress report to each meeting.

The Committee received and approved the plan.

Action (AB)

Internal Audit to note comments in relation to timing of audit work and ensure that progress reports reflect the Committee's requirements

AC59/12 Counter Fraud Plan

Ms Karen Sharrocks presented the plan. She informed the Committee that there had been very little change in fraud risks in recent years. Bank mandate fraud was highlighted as a new risk. In relation to the requirements under the Bribery Act, a risk assessment of the steps that the Trust has taken is included in the revised framework. The Chairman was concerned that the plan appeared to treat all fraud risks identically, rather than focusing on those that could have a detrimental effect on the Trust's reputation, such as procurement and charitable funds. The Director of Finance and Procurement wanted to know where fraud is most likely to happen, in terms of materiality and focus of effort.

Ms Sharrocks explained that the focus of the team's work would be on preventing fraud, and every referral would be discussed with the Trust to ensure that the response is proportionate. She made reference to the detailed plan on pages 8 and 9, informing the Committee that the NHS Protect standards demand these. There are 4 key priorities under NHS Protect. It is expected that a new quality assurance process will be rolled out next summer, and the Trust would be expected to produce evidence of compliance against each standard.

In relation to Fraud Awareness Week, Ms Sharrocks explained that she would be meeting with the Communications team about putting out positive messages. The Chairman suggested that the team meets with the Director of Workforce to plot links with the Trust's Engagement Strategy.

Ms Sharrocks set out three areas on which she and her team would be carrying out proactive work:

- Pre-employment checks – this is a new area that had been identified because of the growth in identity fraud
- Procurement tenders
- Patient travel

She emphasised however that the plan is flexible.

Ms Sharrocks confirmed that there were no open investigations at handover.

The Committee received and approved the plan.

AC60/12 Compliance Reports

The Director of Finance and Procurement explained that the major areas in this report last year were in relation to pharmacy and salary overpayments. He expressed confidence that there had been improvements particularly on salary overpayments with the arrival of the new payroll suppliers. He also confirmed that tighter processes are now in place in relation to private and overseas patients. However, there is sometimes a delay in patients being identified as private, and overseas patients are still an area of difficulty because they are often admitted as emergency cases. Mr Bostock offered to share examples of good practice that he had observed elsewhere.

The Committee noted the losses and special payments recorded to date. No major issues were uncovered. On waivers, the Chairman queried a number of the items recorded, all of which were appropriately explained by the Director of Finance and

Procurement. The Chairman indicated that he would like to see an annual rolling list, and the Director of Finance and Procurement agreed to present this, as well as a list of those rejected as single tender options.

The Committee discussed some of the items on the list and a specific question was raised as to the status of consumables within the tendering and contracting process. There was concern that the suppliers may have quoted a low price on the main contract with the expectation that they would be able to supply the consumables. The Director of Finance and Procurement reassured the Committee that the issue of consumables is an explicit part of the procurement process, and provided an appropriate response regarding the STA on the list. Sir Jonathan Michael commented that the identity of the member of staff signing the waiver should be included on the spreadsheet to support compliance with the Standing Orders.

Action (MM)

A rolling annual list of waivers as well as those rejected to be presented at each meeting

AC61/12 Any Other Business

There was no other business

AC62/12 Date of next meeting

Friday 14 November 2012 at 10.00 am