

To: The Board

For meeting on: 29 July 2015

Agenda item: 7

Report by: Keith Palmer, Audit and Risk Committee Chair

Report on: Report of the Audit and Risk Committee meeting on 1 July 2015

Summary:

1. The Chair of the 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 1 July 2015. The minutes of the meeting are attached at Annex A to this report.

Issues

Internal Audit

2. The Committee reviewed the reports of the following internal audit reviews:
 - Review of Data Models
 - Pricing Programme Assurance
3. The Review of Data Models report was given a 'moderate' rating, meaning that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
4. Committee members spent some time considering the outcome of the internal audit review of Monitor's programme for publication of the 2014/15 National Tariff. The findings of this review were rated as 'limited', reflecting the level of challenge associated with the programme for the production of the 2014/15 National Tariff. The Committee was content that the rating reflected the complexities of such a detailed programme of work as the National Tariff being jointly produced by two organisations (Monitor and NHS England) that had been established with very different organisational objectives and focus. The Committee proposed that the risks

associated with this issue should be discussed with the Department of Health's Audit and Risk Committee.

5. The Committee was also provided with an initial view of the internal audit priorities for 2015/16. The areas for internal audit focus in 2015/16 were discussed and the Committee noted the value of ensuring that the 2015/16 internal audit plan remained sufficiently flexible to enable an appropriate response to possible future organisational changes arising from the announcement of closer working arrangements between Monitor and the NHS Trust Development Authority. The Committee will keep the internal audit priorities under review.

Monitor's Annual Report and Accounts 2014/15

6. The Committee reviewed the Head of Internal Audit's opinion that Monitor had adequate and effective systems of control, governance and risk management in place for the reporting year 2014/15 and the fact that the Comptroller and Auditor General anticipated certifying Monitor's 2014/15 financial statements with an unqualified audit opinion and without modification. Having done this the Committee reviewed the 2014/15 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 2014/15

7. 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 2014/15 with an unqualified audit opinion and without modification. Having done this the Committee was content to recommend that they be signed off by the Accounting Officer.

Keith Palmer
Audit and Risk Committee Chair

ANNEX A

MINUTES OF A MEETING OF THE MONITOR AUDIT AND RISK COMMITTEE HELD ON 1 JULY 2015 AT 2.00pm AT WELLINGTON HOUSE, 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)

Kate Mathers, Engagement Director
Nicholas Todd, Engagement Director

Internal Auditors – (Health Group Internal Audit Service)

Ian Looker, Head of Internal Audit

Monitor

Adrian Masters, Managing Director of Sector Development
David Bennett, Chief Executive
Francesca Briscoe-Wilson, Legal Assistant
Jason Dorsett, Financial Reporting and Risk Director
Philippa Harding, Operations and Performance Director
Stephen Hay, Managing Director 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 Apologies for absence had been received from Iain Osborne (Non Executive Director), Joan Hanham (Chairman of the Board), and Susan McNair (Internal Audit Manager).

2. Declarations of interest

2.1 No interests were declared.

3. Minutes and matters arising from the meeting held on Thursday 21 May 2015 (ARC/15/22)

3.1 The minutes were approved and no matters arising were noted.

4. Internal Audit reports (ARC/15/23)

Patrick Henry (Pricing Operations Director) and Peter Sinden (Chief Information Officer) were in attendance for the consideration of this item.

(i) Review of Data Models (ARC/15/23(i))

- 4.1 The Committee noted the report which set out the results of the internal audit review of the controls and processes in place in relation to Monitor's business critical data models. The overall rating for the report was 'moderate', meaning that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Six recommendations were made, two of which were identified as medium priority and four as low priority.
- 4.2 The Committee noted that the report was part of a wider programme of work that had been commissioned to review quality assurance of government analytical models of Arms-Length Bodies (ALBs) following the issues raised in the Inter-City West Coast franchise competition (the Macpherson Review).
- 4.3 Consideration was given to the responsibility for ensuring that the design of analytical models was appropriate and fit for use by the groups for which they were designed. It was noted that the Modelling Advisory Group that had been established by Monitor would lead on these issues.

(i) Pricing Programme Assurance (ARC/15/23(ii))

- 4.4 Audit and Risk Committee members noted the report of the internal audit review of the processes related to Monitor's programme for the production of the 2014/15 National Tariff, for which Monitor was jointly responsible with NHS England. The overall rating for the report was 'limited', meaning that there were significant weaknesses in the framework governance, risk management and control such that it could be or could become inadequate and ineffective. Five recommendations were made, all of which were identified as medium priority.
- 4.5 The Committee noted the complexities of such a detailed programme of work as the National Tariff being jointly produced by two organisations. NHS England and Monitor had been established with very different organisational objectives and focus, which could result in a different emphasis in the two organisations' approaches. It was proposed that the risks associated with this issue should be reported to the Department of Health's Audit and Risk Committee.

ACTION: KP

5. Annual Assurance Report (ARC/15/24)

- 5.1 The Committee noted the report which set out a summary of internal audit work delivered in 2014/15 and the formal annual opinion of the Head of Internal Audit. Overall the Head of Internal Audit confirmed that he could give moderate assurance to the Accounting Officer that Monitor had had adequate and effective systems of control, governance and risk management in place for the reporting year 2014/15, meaning that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and control.
- 5.2 It was confirmed that the Head of Internal Audit's opinion of Monitor's systems of control, governance and risk management was consistent with that provided to the majority of the Department of Health's ALBs. Very few ALBs had received substantial assurance with regard to these frameworks and moderate assurance was not an indication of concern.

6. Internal Audit Plan (ARC/15/25)

- 6.1 The Audit and Risk Committee members reviewed the draft internal audit plan for 2015/16. The amount of time provisionally allocated to review different areas was discussed. The Committee noted the value of ensuring that the 2015/16 internal audit plan remained sufficiently flexible to enable an appropriate response to possible future organisational changes arising from the announcement of closer working arrangements between Monitor and the NHS Trust Development Authority (NHS TDA). Subject to this observation, Audit and Risk Committee members confirmed that they were content with the proposed internal audit plan. It was noted that it would be kept under regular review.

7. Monitor Audit Completion Report (including mgmt. letter) on the 2014/15 financial statement audit (ARC/15/27)

Zara Walker (Management Accountant) was in attendance for the consideration of this item.

- 7.1 Nicholas Todd introduced the report which summarised the key matters arising from the National Audit Office's (NAO's) audit of the 2014/15 financial statements. As Monitor voluntarily reported on how it had applied the UK Corporate Governance Code, the audit certificate was an enhanced auditor's report, as required under International Audit Standard (ISA) 700. It was noted that the Comptroller and Auditor General anticipated certifying the 2014/15 financial statements with an unqualified audit opinion, without modification.
- 7.2 Audit and Risk Committee members considered the significant risks to the 2014/15 financial statements that had been identified in the NAO's audit planning report of November 2014 and the actions taken by the NAO in order to test these. The findings of this work were discussed.

8. Monitor 2014/15 annual report and accounts (ARC/15/26)

Zara Walker (Management Accountant) was in attendance for the consideration of this item.

- 8.1 Audit and Risk Committee members considered the report which included the final draft of Monitor's 2014/15 annual reports and accounts. A paper was tabled listing minor changes that had been made since the circulation of the Committee's agenda and papers.

RESOLVED:

- 8.2 Subject to the minor changes to be addressed prior to the report's completion, the Audit and Risk Committee approved the 2014/15 annual report and accounts.

9. Consolidated NHSFT Account Audit Completion Report on the 2014/15 financial statement audit (ARC/15/29)

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

- 9.1 Kate Mathers introduced the report which summarised the key matters arising from the NAO's audit of the NHS foundation trust (NHSFT) 2014/15 consolidated financial statements. It was noted that the Comptroller and Auditor General anticipated certifying the 2014/15 financial statements with an unqualified audit opinion, without modification.
- 9.2 The Audit and Risk Committee members noted the significant financial statement risks that had been identified by the NAO's audit planning report of November 2014 and the actions taken by the NAO in order to test these. Consideration was also given to the insights offered by the NAO in light of its audit of the NHSFT 2014/15 consolidated financial statements.

10. Consolidated NHS Foundation Trust Accounts (ARC/15/28)

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

- 10.1 The Audit and Risk Committee discussed the report which presented the consolidated NHSFT accounts for 2014/15.
- 10.2 It was noted that some minor changes had been made to the consolidated accounts since the circulation of the Audit and Risk Committee papers. Information about these changes was tabled.
- 10.3 The Committee noted that all 153 NHSFTs received unqualified audit opinions on their accounts. However, 38 NHSFTs had received qualified audit certificates relating to economy, efficiency and effectiveness in the use of resources. These 30 correlated with where Monitor had taken enforcement action, either during or after

the financial year. Audit and Risk Committee members noted that 61 acute/specialist NHSFTs (of 103) had their limited assurance on the quality report qualified for the work on the '*percentage of incomplete pathways within 18 weeks for patients on incomplete pathways at the end of the reporting period*' indicator. As this could have been the result of inadequate data, it was noted that NHSFTs needed to ensure that they retained data about their referral to treatment waiting times. The adequacy of NHSFTs' data systems, including data retention systems, was discussed.

RESOLVED:

10.4 The Audit and Risk Committee approved the NHSFT consolidated accounts for 2014/15.

11. Any other business

11.1 No other business was raised.

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