

**MINUTES OF A MEETING OF THE MONITOR AUDIT AND RISK COMMITTEE HELD  
ON 24 NOVEMBER 2014 AT 4.00pm  
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)**

Kate Mathers, Engagement Director  
Nick Todd, Engagement Manager

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

Susan McNair, Internal Audit Manager

**Monitor**

David Bennett, Chief Executive (until item 6)  
Jason Dorsett, Financial Reporting and Risk Director  
Joan Hanham, Chairman  
Philippa Harding, Board Secretary  
Stephen Hay, Managing Director of Provider Regulation  
Adrian Masters, Managing Director of Sector Development  
Das Mootanah, Risk and Performance Director  
Steven Murray, Head of Internal Finance  
Rebecca Threlfall, Committee Secretary

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 Ian Looker (Head of Internal Audit).

**2. Declarations of interest**

2.1 No interests were declared.

### **3. Minutes and matters arising from the meeting held on Thursday 18 September 2014 (ARC/14/30)**

3.1 The minutes were approved and the matters arising noted.

### **4. Internal Audit Progress Report (ARC/14/31)**

4.1 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

### **5. Internal Audit Reports**

#### **(i) Financial Regulations (ARC/14/32(i))**

5.1 The Committee noted the report of the internal audit review of Monitor's Standing Financial Instructions (SFIs) document and its supporting policies. The overall rating for the report was "moderate", with four recommended actions to be followed up. It was noted that, at its meeting on 24 September 2014, the Board had approved amended SFIs in light of the findings of this review.

#### **(ii) Procurement (ARC/14/32(ii))**

5.2 Audit and Risk Committee members considered the report of the internal audit review of the procurement controls that Monitor had in place. The overall rating of the report was "moderate", with four recommended actions to be followed up. The value of having new internal auditors to take a fresh view of the organisation's controls was noted.

#### **(iii) Key Financial Controls (ARC/14/32(iii))**

5.3 The Committee discussed the report of the internal audit review of the controls in place relating to the operation of Monitor's core financial systems, including control evaluation and sample testing in relation to accounts payable, accounts receivable, budgetary controls and the general ledger. The overall rating of the report was "moderate", with three recommended actions to be followed up.

5.4 The importance of robust financial controls was emphasised by Audit and Risk Committee members, particularly as the organisation was responsible for spending public funds. Consideration was given to the organisation's processes for the use of corporate credit cards, together with the controls in place (both prospective and retrospective) to prevent fraud.

### **6. 2014/5 Audit Planning Report (Monitor) (ARC/14/33)**

6.1 Nick Todd presented the report which set out the details of the proposed financial statement audit approach to be taken by the NAO for Monitor, with regard to the

2014/15 financial year. Key risks identified for consideration during the NAO's audit work included Monitor's capital expenditure (possible inaccurate or wrongly valued capitalisation of costs), segmental reporting (ensuring appropriate authorisation had been given for ring-fenced and core budgets), and management override of controls (an assumed risk under International Auditing Standards). Audit and Risk Committee members considered these to be appropriate risks upon which to base the NAO's audit approach.

6.2 It was noted that additional work would be required of the NAO (extended auditor reporting) if Monitor decided to voluntarily report on how it applied the UK Corporate Governance Code in its Annual Governance Statement (AGS). Audit and Risk Committee members considered the value and appropriateness of this voluntary report. The Committee was reminded that, as an Arms Length Body, Monitor was required to report how it applied *Corporate governance in central government departments: code of good practice 2011*. However, it was also noted that Monitor had proposed in its consultation on the 2014/15 NHS Foundation Trust (NHSFT) Annual Reporting Manual that NHSFTs should include in their annual report a statement on how they had applied the principles of the UK Corporate Governance Code. In light of this, Audit and Risk Committee members were of the opinion that Monitor should provide the same level of reporting as that expected of NHSFTs and were therefore content that the proposed voluntary statement should be made in Monitor's AGS.

## **7. 2014/15 Audit Planning Report (NHS Foundation Trust Accounts 2014/15) (ARC/14/34)**

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

7.1 Kate Mathers presented the report which set out details of the proposed financial statement audit approach to be taken by the NAO for the consolidated account for NHSFTs for the year ending 31 March 2015. Key risks identified for consideration during the NAO's work included Department of Health (DH) Agreement of Balances (levels of mismatched transactions), fraud in revenue recognition and management override of controls (both presumed risks under International Auditing Standards). The level of financial challenge faced by the NHSFT sector was also noted.

7.2 Audit and Risk Committee members gave consideration to the NAO's role with regard to the Audit Code for NHSFTs. It was noted that the current Monitor Audit Code would be applied to the audit of the 2014/15 consolidated account of NHSFTs. The NAO would then take responsibility for the Audit Code from 2015 onwards. Further information with regard to the forthcoming changes to the Audit Code would be brought to the next meeting of the Audit and Risk Committee.

**ACTION: JD**

7.3 The Committee noted the redesigned audit approach to be taken by the NAO with regard to the 2014/15 consolidated NHSFT account. Particular consideration was given to the level of the quantitative materiality threshold to be adopted. It was confirmed that elements of the account and related disclosures that were considered to be more sensitive would be assessed using a lower threshold.

## **8. Planned assurances over Consolidated NHS Foundation Trust Account 2014/15 (ARC/14/35)**

Eleanor Shirliff (Sector Financial Accounting Manager) was in attendance for the consideration of this item.

8.1 Audit and Risk Committee members noted the report which set out the key risks to the NHSFT consolidated accounts for 2014/15 as currently understood within Monitor and the plans for providing the Audit and Risk Committee with assurance on the processes to prepare the consolidated accounts and the resulting document.

8.2 With regard to the instances in 2013/14 where two NHSFTs had not obtained the necessary approvals for certain payments, it was noted that Monitor had subsequently amended the NHSFT Annual Reporting Manual to add extra clarity that a non-contractual payment in lieu of notice should be considered a non-contractual payment requiring HM Treasury approval, rather than being disclosed as a standard payment in lieu of notice.

## **9. Q2 Risk Report (ARC/14/36)**

9.1 Das Mootanah introduced the report which updated the Audit and Risk Committee on key risk movements in the second quarter of 2014/15. The report also provided an update on highlights and priorities for the next quarter.

9.2 Consideration was given to the distinction to be drawn between the problems or challenges faced by Monitor and the health care sector in general and the risks. It was noted that this issue was linked to the reporting of risks over which Monitor had little or no control. The Committee suggested that these issues could usefully be discussed further at the forthcoming Board workshop on risk.

9.3 The Committee noted the risks associated with the increasing size of Monitor as an organisation, in particular the fact that regulatory judgements were more likely to be taken by a wider group of individuals than originally. In response to the question of whether the organisation was able to ensure that it made consistent regulatory judgements, the Committee was assured that the governance framework of functional executive committees had been designed in order to ensure this.

## **10. Board Risk Workshop 03/12/14 –draft agenda (ARC/14/37)**

10.1 The Committee considered the report which provided the proposed agenda for Monitor's 2014/15 Board risk workshop.

10.2 The possible role that the internal audit function might play at the workshop was discussed. It was noted that an internal audit review of Monitor's risk management approach was currently being undertaken and that initial feedback on the findings of this could be presented; however the Committee considered that it would be more appropriate to consider the strategic risks facing the organisation. The importance of using the workshop to gain a shared understanding of the risks and challenges facing the organisation was emphasised.

10.3 Audit and Risk Committee members were encouraged to feed in their views of the issues to be considered by the workshop. It was emphasised that the focus of the workshop was on furthering the Board's understanding of risk appetite and what Monitor's approach to risk appetite should be, as well as establishing a high degree of confidence that the organisation was focussing on the risk risks and related mitigations.

## **11. Draft Annual Governance Statement (ARC/14/38)**

11.1 Audit and Risk Committee members considered the report which provided information about the AGS that Monitor was required to include in its 2014/15 Annual Reports and Accounts. It was noted that the draft AGS was being submitted to the Committee earlier than in previous year, in order to comply with the stipulation in the Framework Agreement between DH and Monitor that a draft AGS be provided each December.

11.2 The Committee considered that the content of the draft AGS was generally appropriate, noting that it would change in a number of places before its final inclusion in Monitor's 2014/15 Annual Report and Accounts. In particular, it was proposed that further evaluation should be undertaken of the risks faced by the organisation.

## **12. Whistleblowing Review (ARC/14/39)**

12.1 Philippa Harding presented the report which set out the high level initial findings of the review of how Monitor's whistleblowing policies were operating, together with its initial recommendations. An oral update was also provided with regard to the progress being made by Sir Robert Francis QC's Freedom to Speak Up Review.

12.2 Consideration was given to the relationship between open reporting and whistleblowing. It was noted that term "whistleblowing" might discourage individuals from reporting issues which they considered not to be sufficiently important to labelled as such.

12.3 The Committee confirmed that it was content for the finalisation of Monitor's whistleblowing review to await the outcome of the Freedom to Speak Up Review. This would ensure that any recommendations took account of the findings of Sir Robert Francis.

## **13. Any other business**

13.1 No other business was raised.

**Close**