

To: The Board

For meeting on: 28 May 2015

Agenda item: 9

Report by: Keith Palmer, Audit and Risk Committee Chair

Report on: Report of the Audit and Risk Committee meeting on 21 May 2015

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 Thursday 21 May 2015. The minutes of the meeting are attached at Annex A to this report. The Annual Report of the Audit and Risk Committee is attached at Annex B to this report.

Issues

Internal Audit

2. The Committee received an update from Monitor's internal auditors on the progress of their workplan and reviewed the reports of the following internal audit reviews:
 - Legal Services
 - Recruitment and Induction
 - Provider Appraisal
 - Pricing Enforcement and Compliance
 - Data Quality
 - IT Security
3. The Legal Services, Recruitment and Induction, Pricing Enforcement and Compliance and Data Quality internal audit reviews were all rated 'moderate', indicating that some improvements are required to enhance the adequacy and effectiveness of the framework of governance, risk management and control in these particular areas.

4. The Provider Appraisal internal audit review was rated 'substantial', meaning that the framework of governance, risk management and controls was adequate and effective.
5. Committee members spent some time considering the outcome of the internal audit review of Monitor's IT security arrangements. The findings of this review were rated as 'limited'. The Committee was content that there were no significant issues in this areas, rather that the rating reflected the level of change being experienced by the organisation in this area. The internal auditors are confident that appropriate work is in hand to address the recommendations set out in the report.
6. The Committee also received an update on the progress of actions arising from past internal audit actions. All outstanding items are at least partially implemented.

Risk

7. The Q4 risk report is submitted to the Board for consideration elsewhere on the agenda for this meeting. Further information about this can be found under agenda item 17(i) (ref: BM/15/62(i)).

Monitor draft accounts and annual governance statement 2014/15

8. The Committee confirmed that it was content with the draft 2014/15 accounts and the draft 2014/15 annual governance statement, subject to a number of minor drafting amendments and additions to the annual governance statement.

Update on consolidated NHS foundation trust accounts 2014/15

9. The Committee received an update on the key risks to the NHS foundation trust (NHSFT) consolidated accounts for 2014/15. The NAO also provided an update on it's audit of the financial statements for the consolidated accounts of the NHSFTs.
10. Work is being undertaken with the Department of Health to ensure that its agreement of balances reaches the appropriate position. The Committee also reviewed the proposed going concern statement to be made in the 2014/15 NHSFT consolidated accounts and confirmed that it was content with it.

Annual Report of the Audit and Risk Committee

11. The Committee approved the content of its annual report to the Board, which is attached as Annex B to this report.

Keith Palmer
Audit and Risk Committee Chair

**MINUTES OF A MEETING OF THE MONITOR AUDIT AND RISK COMMITTEE HELD
ON 21 MAY 2015 AT 10.00am
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
Jason Dorsett, Financial Reporting and Risk Director
Philippa Harding, Board Secretary
Stephen Hay, Managing Director of Provider Regulation
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 Joan Hanham (Chairman) and 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 19 February 2015 (ARC/15/12)

3.1 The minutes were approved and the matters arising noted.

4. Audit Progress Reports

(i) Audit progress report on the 2014/15 financial statement audit (ARC/15/13(i))

4.1 The Audit and Risk Committee considered the report which provided an update on the National Audit Office's (NAO's) audit of Monitor's 2014/15 financial statements for both Monitor and the consolidated accounts of the NHS Foundation Trusts (NHSFTs).

(ii) Internal audit progress report (and oral update on plan for 2015/16) (ARC/15/13(ii))

4.2 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. It was noted that the reports of two internal audit reviews remained to be finalised and would be submitted to the next meeting of the Committee, alongside the Head of Internal Audit's Opinion.

4.3 A brief oral update was provided with regard to the outline of the proposed plan of internal audit reviews for 2015/16. This would be presented to the next meeting of the Committee. Ahead of this, Audit and Risk Committee members requested that consideration be given to the manner in which an internal audit review of Monitor's decision to authorise St George's Healthcare NHS Trust as an NHS foundation trust (NHSFT) should be incorporated into the 2015/16 internal audit plan.

5. Internal Audit Reports

Derek Cox (Head of Governance and Assurance (KIM)), Patrick Henry (Pricing Operations Director) and Mark Smith (Head of Operational Systems and IT (KIM)) were present for the consideration of this item.

(i) Legal Services (ARC/15/14(i))

5.1 The Committee noted the report of the internal audit review of the controls in place in relation to Monitor's Legal Services directorate. 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. Three recommendations were made, two of which were identified as low priority and one as medium priority.

(ii) Recruitment and Induction (ARC/15/14(ii))

5.2 Audit and Risk Committee members considered the report of the internal audit review of the processes and governance in place to support effective and compliant recruitment and induction. The findings of the review had been rated as 'moderate', indicating that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and controls. Three recommendations were made, one of which was identified as low priority, the other two assessed as medium priority.

5.3 Monitor's approach to induction was discussed. It was noted that a central induction programme ran successfully; however the importance of local induction was noted to for new members of staff joining the organisation.

5.4 The internal audit review had recommended that the rationale for recruitment decisions, in particular the shortlisting criteria and an evaluation of interviewee's suitability against person specification should be documented in greater detail. Audit and Risk Committee members were assured that process controls were in place with regard to recruitment; however more could be done to document these.

(iii) Provider Appraisal (ARC/15/14(iii))

5.5 The Committee noted the report of the internal audit review which had looked at the quality assurance processes currently in place within the Provider Appraisal directorate. The findings of the review had been rated 'substantial', reflecting that the framework of governance, risk management and control was adequate and effective. Two low priority recommendations had been made.

(iv) Pricing Enforcement and Compliance (ARC/15/14(iv))

5.6 The Committee noted the report of the internal audit review of the processes in place over pricing enforcement and compliance. The processes had been introduced from 1 April 2014 following the publication of the 2014/15 National Tariff Payment System. The findings of the review had been rated 'moderate', indicating that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Two recommendations were made, one of which was identified as low priority, the other as medium priority.

(v) Data Quality (ARC/15/14(v))

5.7 Audit and Risk Committee members noted the report which presented the findings of an internal audit review of Monitor's data quality policies, processes and systems designed to ensure that appropriate data quality was maintained throughout data use. The findings of the review had been rated as 'moderate', indicating that some improvements were required to enhance the adequacy and effectiveness of the framework of governance, risk management and control. Six recommendations were made, three of which were identified as low priority and three as medium priority.

(vi) IT Security (ARC/15/14(vi))

5.8 The Committee considered the findings of an internal audit review of Monitor's information security arrangements. The findings of the review had been rated as 'limited', indicating some significant weaknesses in the framework of governance, risk management and control, such that it could be or could become inadequate and ineffective. Eleven recommendations were made, five of which were identified as low priority and six as medium priority.

5.9 Audit and Risk Committee members considered the action to be taken in response to the recommendation that Monitor should introduce a documented user administration process where its user access policy, roles and authorisation process was defined. The importance of having such a process was discussed. The manner in which it could be embedded culturally was discussed. The Committee noted that Monitor currently had a pragmatic approach to ensuring that users had appropriate access to the organisation's IT system; however the value of normalising a process that was led by managers across the organisation, rather than from the KIM team was emphasised. The Managing Director of Sector development was asked to follow this up with the Executive Director of Organisation Transformation.

ACTION: AM

5.10 The Committee noted that Monitor's third party suppliers were ISO27001 accredited and so met industry good practice with regard to physical security and environmental controls. It was suggested that Monitor should request sight of audit reports against this standard.

ACTION: MS

6. Follow up internal audit actions – update (ARC/15/15)

6.1 Audit and Risk Committee members noted the report which provided information about the internal audit reviews that had taken place, the actions arising from them and the progress made in completing these actions.

6.2 At its meeting on 19 February 2015, the Committee had requested that a 'level of concern' rating be applied to outstanding agreed audit actions, based upon their priority rating and the length of time that they had been outstanding. Having considered whether the proposed rating was sufficiently robust, Audit and Risk Committee members confirmed that they were content with its application.

7. Q4 Risk Report (ARC/15/16)

Das Mootanah (Risk and Performance Director) was present for the consideration of this item.

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

7.2 Consideration was given to risks in relation to Monitor's ability to turn around struggling NHSFTS and ensure that continuity of services was maintained. It was

proposed that the drafting of these risks should be revised to reflect the fact that it was unlikely that Monitor would be unable to ensure the continuity of services.

7.3 Audit and Risk Committee members discussed the actions that Monitor was taking to support and supplement leadership and management capacity and capability within the NHSFT sector.

8. Monitor draft accounts 2014/15 (ARC/15/17)

8.1 The Audit and Risk Committee considered the report which accompanied Monitor's draft 2014/15 accounts. The Committee confirmed that it was content with the draft 2014/15 accounts as appended to the report.

9. Monitor draft annual governance statement 2014/15 (ARC/15/18)

9.1 Audit and Risk Committee members reviewed the report which provided information about the annual governance statement that Monitor was required to include within its 2014/15 annual report and accounts. It was noted that a number of minor drafting amendments and additions were required. Subject to these, the Committee confirmed that it was content with the draft 2014/15 annual governance statement as appended to the report.

10. Update on consolidated NHS foundation trust accounts 2014/15 (ARC/15/19)

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

10.1 The Audit and Risk Committee noted the report which set out the processes and planned assurance for the 2014/15 consolidated NHSFT accounts, the management commentary on the accounts and foreword and the annual governance statement. An update on the risks to the 2014/15 consolidated accounts was also provided.

10.2 Particular consideration was given to the level of mismatches on agreement of balances across the Department of Health (DH) group. It was noted that, whilst 'FT to FT' mismatches were mismatches in the NHSFT sector which constituted an error in the NHSFT consolidated accounts, the position between NHSFTs and other group bodies did not represent an error in the NHSFT consolidated accounts but could be potential errors in the underlying NHSFT position. Work was being undertaken to ensure that the DH agreement of balances reached the appropriate position.

11. Going concern basis disclosure in consolidated NHS foundation trust accounts (ARC/15/20)

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

- 11.1 The Audit and Risk Committee discussed the report which set out the proposed going concern statement to be made in the 2014/15 NHSFT consolidated accounts.
- 11.2 Monitor prepared the consolidated NHSFT accounts under the requirements of the NHS Act 2006 (as amended by the Health and Social Care Act 2012) and under direction issued by the Secretary of State. This required Monitor to prepare the consolidated accounts in line with the relevant principles of HM Treasury's Financial Reporting Manual (FReM), based upon accounting standards. Accounting standards required preparers of accounts to make an assessment of going concern over at least a twelve month period, and disclose any material uncertainties.
- 11.3 Audit and Risk Committee members considered whether Monitor was under an obligation to verify the basis of going concern statements made in NHSFT accounts. In response to this it was confirmed that Monitor could take assurance from the distressed funding regime. In light of this, the Committee was content with the proposed approach to the going concern basis disclosure in the consolidated NHSFT accounts.

12. Annual report of the Audit and Risk Committee to the Board (ARC/15/21)

- 12.1 The Audit and Risk Committee approved the content of its annual report to the Board, which, as required by the Terms of Reference of the Audit and Risk Committee was to be presented to the Board summarising the activities that Committee had undertaken during the year and highlighting the key issues with respect to the provision of assurances to the Board.

13. Any other business

- 13.1 No other business was raised.

Close

ANNEX B

ANNUAL REPORT OF THE AUDIT AND RISK COMMITTEE TO THE BOARD

The role of the committee

1. The Committee supports the Board and the Chief Executive (as Accounting Officer) by reviewing the comprehensiveness, reliability and integrity of the assurances provided to the Committee regarding Monitor's internal controls, risk management and governance processes. On the basis of the assurance provided to it, the Committee forms an overall view on the state of risk management, governance and internal controls at Monitor, which it reports to the Board and the Accounting Officer.
2. In 2014/15, the Committee has been content that the assurances provided to it are sufficient to meet the needs of the Board and the Accounting Officer (both in terms of decision-making and their accountability obligations). It is convinced that these assurances are of suitable reliability and integrity.

Committee membership and attendance

3. The Committee comprises three members, appointed by the Board, on the recommendation of the Nomination Committee, in consultation with the Chairman of the Board.
4. At least two members of the Committee are non-executive directors. These are currently Keith Palmer (Chair of the Committee) and Sigurd Reinton. The third member of the Committee is either a non-voting member who is independent of the Monitor Board or another non-executive director. In May 2014, Iain Osborne, another of Monitor's non-executive directors was appointed to be the third member of the Committee. The Chairman of the Board attends Committee meetings, but is not a member of the Committee.
5. A number of Monitor officers are in regular attendance at each meeting of the Committee. These include David Bennett (Chief Executive and Accounting Officer), Stephen Hay (Managing Director of Provider Regulation), Adrian Masters (Managing Director of Sector Development), Toby Lambert (Director of Strategy and Policy), Jason Dorsett (Financial Reporting and Risk Director), Philippa Harding (Board Secretary) and Steve Murray (Head of Internal Finance). Monitor's internal audit providers (PwC on behalf of the Department of Health's Health Group Internal Audit Service from 2014/15) and external audit providers (National Audit Office) also regularly attend Committee meetings.

Frequency of Committee meetings and agendas

6. The Committee meets five times a year at appropriate times in the reporting and audit cycle and otherwise as required. In 2014/15 the Committee met on the following dates:

Date of meeting	Attendance	Business
21/05/2014	<ul style="list-style-type: none"> • Keith Palmer • Sigurd Reinton • David Bennett • Jason Dorsett • Joan Hanham • Philippa Harding • Stephen Hay • Toby Lambert • Adrian Masters • Steven Murray • NAO 	<ul style="list-style-type: none"> • Monitor 2013/14 draft accounts and audit update • Monitor 2013/14 draft Annual Governance Statement Q4 risk report • Internal audit progress update • Internal Audit Review: Financial Systems and Procurement Review 2013/14 • Update on identified risks for Consolidated NHS Foundation Trust Accounts 2013/14 • Annual Report of the Audit and Risk Committee to the Board
02/07/2014	<ul style="list-style-type: none"> • Keith Palmer • Iain Osborne • Sigurd Reinton • David Bennett • Jason Dorsett • Joan Hanham • Philippa Harding • Stephen Hay • Toby Lambert • Steven Murray • NAO • KPMG • PWC 	<ul style="list-style-type: none"> • KPMG Internal Audit Reviews <ul style="list-style-type: none"> ◦ Contingency Planning Teams / Trust Special Administrators Process Review ◦ Assessment ◦ Strategic Information Programme ◦ Corporate Governance ◦ Provider Regulation and Risk Assessment Framework ◦ Co-operation and Competition ◦ Follow Up Internal Audits • Internal Audit Annual Report and Opinion 2013/14 • Monitor – Audit Completion Report (including management letter) on the 2013-14 financial statement audit • Monitor's 2013/14 annual report and accounts • Consolidation of NHS Foundation Trusts Account – Audit Completion Report on the 2013/14 financial statement audit • NHS Foundation Trusts: Consolidated accounts 2013/14 • Internal Audit 2014/15 • Whistleblowing Review – scope
18/09/2014	<ul style="list-style-type: none"> • Keith Palmer • Iain Osborne • Sigurd Reinton • David Bennett • Jason Dorsett • Joan Hanham • Philippa Harding • Stephen Hay • Steven Murray • NAO • PWC 	<ul style="list-style-type: none"> • Q1 risk report • Articulating Monitor's risk appetite • Audit Plan 2014/15 • Proposed content for Monitor 2014/15 Annual Governance Statement • Review of Monitor's Standing Financial Instructions
24/11/2014	<ul style="list-style-type: none"> • Keith Palmer • Iain Osborne • Sigurd Reinton • David Bennett • Jason Dorsett • Joan Hanham • Philippa Harding • Stephen Hay • Adrian Masters • Das Mootanah • Steven Murray • Rebecca Threlfall • NAO • PWC 	<ul style="list-style-type: none"> • Internal Audit Progress Report • Internal Audit reports: <ul style="list-style-type: none"> ◦ Financial Regulations ◦ Procurement ◦ Core Financial Systems • 2014/15 Audit Planning Report (Monitor) • 2014/15 Audit Planning Report (NHS Foundation Trusts: consolidated account) • Planned assurances over Consolidated NHS Foundation Trust Accounts 2014/15 • Q2 Risk Report • Board Risk Workshop 03/12/14 – draft agenda • Draft Annual Governance Statement • Whistleblowing Review

19/02/2015	<ul style="list-style-type: none"> To be updated following meeting 	<ul style="list-style-type: none"> Internal Audit Progress Report Internal Audit reports: <ul style="list-style-type: none"> Information Governance Risk Management Finance for Distressed Cases Independent Provider Licensing Internal Audit actions - update Q3 Risk Report Enhanced auditor reporting under ISA 700 Annual report of the Audit and Risk Committee to the Board Macpherson Review: quality assurance of analytical models Whistleblowing Review Code of Audit Practice – NAO update Update on Consolidated NHS Foundation Trust Account 2014/15
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Oversight of financial reporting

Monitor's Annual Report and Accounts

7. The Committee tests the plans put in place for the production of Monitor's Annual Report and Financial Statements and the plans for their audit. Committee members determined that the significant issues to be considered in respect of Monitor's financial statements were:
 - a) capital expenditure – the risk that costs could be capitalised incorrectly or at the wrong value;
 - b) segmental reporting of ring-fenced expenditure – the risk that ring-fenced budgets could be inappropriately applied to core expenditure; and
 - c) management override of controls – the risk present in all entities that management override controls to perpetrate fraud.
8. Together with the Board, the Committee reviewed and constructively challenged the consistency of the draft Annual Report and Financial Statements, focussing specifically on the financial statements and the annual governance statement.

NHSFT Consolidated Account

9. Monitor must prepare in respect of each financial year a set of accounts which consolidates the annual accounts of all NHSFTs. The approval of the annual set of accounts which consolidates the annual accounts of all NHSFTs (paragraph 17 of Schedule 8 to the 2012 Act) has been delegated to the ARC.
10. The Committee has also taken an active role in the testing of assurances provided with regard to the compilation of the NHSFT consolidated account. It has reviewed the account in the same detail and with the same rigor that it applies to Monitor's own financial statements.

Oversight of risk management and internal controls

11. The Committee evaluates the effectiveness of Monitor's risk management and internal controls on an ongoing basis. Committee members receive risk reports at each meeting and, based on this information, evaluate of risk management and instruct any improvements required. Using this information and that provided by

Monitor's internal and external auditors the Committee has concluded that the control environment is adequate and effective.

12. Monitor has been in the process of continuing to review its risk management framework in 2014/15 and the Committee has played an active role in this, providing steer and challenge both in formal meetings and through individual conversations. Monitor held a Board Risk Workshop in December 2014 in order to identify the top risks faced by the organisation and Audit and Risk Committee members took a lead role in this. The Committee has also been overseeing the development of thinking about Monitor's risk appetite.

Interaction with Monitor's external auditor

13. The Committee reviews and comments on the audit plans presented by the NAO in relation to its audit of Monitor's financial statements and of the consolidated NHS FT account. As the NAO acts as Monitor's external auditors by statutory appointment, the Committee has not formally reviewed the effectiveness of the NAO as its external auditor. The NAO did not provide Monitor with any non-audit services in 2014/15.

Oversight of internal audit activities

14. The Committee was actively involved in the arrangements made for the transfer of Monitor's internal audit service to the Department of Health (DH) Health Group Internal Audit Service and took a decision on the appointment of the Head of Audit in May 2014.
15. The Committee confirmed that it was content that the internal audit plan was appropriate. The receipt of the reports of internal audit reviews undertaken throughout the year enables the Committee to assess the effectiveness of Monitor's internal audit service on an ongoing basis, alongside considering the adequacy of Monitor's various internal controls. So far, the Committee is content with the quality of Monitor's internal audit service; a review of its effectiveness will be undertaken once the 2014/15 internal audit plan has been implemented, in order to inform the development of the 2015/16 internal audit plan.
16. During 2014/15 the Committee considered the outcome of the following internal audit reviews which had been undertaken as part of the internal audit plan approved by the Committee:
 - i) Financial Regulations
 - ii) Procurement
 - iii) Core Financial Systems
 - iv) Information Governance
 - v) Risk Management
 - vi) Finance for Distressed Cases
 - vii) Independent Provider Licensing
 - viii) Legal Services
 - ix) Recruitment and Induction
 - x) Provider Appraisal

- xi) Pricing Enforcement and Compliance
- xii) Data Quality
- xiii) IT Security

Assessment of the effectiveness of the Audit and Risk Committee in 2014/15

17. The effectiveness of the Committee in 2014/15 has been assessed using the NAO's "Audit Committee self assessment checklist". The Committee considers itself to be operating effectively and applying good practice across the five good practice principles set out in the Audit and Risk Assurance Committee Handbook published by HM Treasury.