To: The Board

For meeting on: 30 September 2015

Agenda item: 8

Report by: Keith Palmer, Audit and Risk Committee Chair

Report on: Report of the Audit and Risk Committee meeting on 17 September 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 Thursday, 17 September 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:

   - Internal Audit Recommendations follow up review
   - Internal Audit Actions pre 2014/15 progress update
   - Procurement

3. The Committee reviewed the progress made by Monitor with regards to the implementation of medium and high risk internal audit recommendations which had been raised in 2014/15. Committee members noted that of the 36 recommendations a total of 23 had been fully implemented, 10 partially implemented and one where the recommendation was no longer considered applicable. The 10 partially implemented recommendations would be checked and tested at the next review.

4. The Committee noted that there were no high level risk internal audit recommendations.

5. The Audit and Risk Committee reviewed the progress on actions arising from internal audit recommendations and noted that there were four outstanding

'performance improvement observations' from internal audits that had taken place in 2014/15. Committee members were content with the level of progress being made.

6. The Committee considered the review which had taken place on procurement controls, procedures and testing as part of the 2015/16 Internal Audit plan and noted the areas for development which PwC had proposed. A sample testing was carried out on eight procurement activities and an overall assurance rating of 'Substantial' had been awarded. The Committee commended the Monitor team for achieving the highest assurance score.

Risk

7. The Q1 2015/16 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 18 (ref: BM/15/91).

Annual Governance Statement and Governance Review

8. The Committee approved the proposed approach to the Annual Governance Statement and Monitor's annual corporate governance review. The Committee suggested that the future governance arrangements between Monitor and NHS TDA should also be included within the statement.

Keith Palmer
Audit and Risk Committee Chair

ANNEX A

MINITOR

MINUTES OF A MEETING OF THE MONITOR AUDIT AND RISK COMMITTEE HELD ON 17 SEPTEMBER 2015 AT 2.00pm AT WELLINGTON HOUSE, LONDON SE1 8UG

Present:

Keith Palmer, Audit and Risk Committee Chair, Non Executive Director
Ian Osborne, Non Executive Director
Sigurd Reinton, Non Executive Director

In attendance:

External Auditor – National Audit Office (NAO)
Nicholas Todd, Engagement Director
Felicia Wright, Finance Audit Director

Internal Auditors – (Health Group Internal Audit Service)
Steve Clarke, Senior Associate
Ian Looker, Head of Internal Audit

Monitor
David Bennett, Chief Executive
Jason Dorsett, Financial Reporting and Risk Director
Niamh Field, Governance Officer
Stephen Hay, Managing Director Provider Regulation
Adrian Masters, Managing Director of Sector Development (until item 7)
Steven Murray, Head of Internal Finance
Katie Neumann, Governance Officer (until item 4(ii))
Ed Smith, Chairman (from item 5)

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 Susan McNair (Internal Audit Manager).

2. **Declarations of interest**

2.1 No interests were declared.

Agenda item: 8
Ref: BM/15/86

3. Minutes and matters arising from the meeting held on Thursday 7 July 2015 (ARC/15/30)

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

3.2 With reference to the action relating to IT security (ARC/15/14(vi) para 5.9), it was noted that the modified approach had been introduced by Information Services in August 2015.

4. Internal Audit Progress Update (ARC/15/31)

(i)   Internal Audit Recommendations follow up review (ARC/15/31(i))

4.1 The Audit and Risk Committee considered the report which reviewed the extent of the progress made by Monitor with the implementation of audit recommendations raised in reports issued in 2014/15. Medium and high risk recommendations were tested to confirm implementation of the recommendation, while low risk recommendations were followed up by management self-assessment. Of the 36 recommendations, a total of 23 had been fully implemented, 10 partially implemented and one where the recommendation was no longer considered applicable. The 10 partially implemented recommendations would be checked and tested at the next review.

4.2 The Audit and Risk Committee noted that, of the 10 partially completed recommendations, there were no issues of significant concern for Monitor. In addition, it was also noted that, overall, there were no high level risk recommendations.

4.3 Audit and Risk Committee members noted that the Internal Audit review had taken place prior to the announcement about the merger with NHS Trust Development Authority (NHS TDA). The role of PwC in providing assurance on the risk recommendations on the work they had been instructed to complete was noted.

(ii)   Internal Audit actions pre 2014/15 – progress update (ARC/15/31(i))

4.4 The Audit and Risk Committee noted the report, which highlighted the progress on actions arising from internal audit recommendations. There were four outstanding 'performance improvement observations' from internal audits that had taken place in 2014/15.

4.5 The Committee noted the update provided on the outstanding actions since May 2015. Although there had been delays due to resources and staff reallocation across the organisation, significant progress was now being made. An update would be provided at the next Audit and Risk Committee.

ACTION: KN

5. Internal Audit Report: Procurement (ARC/15/32)

5.1 The Audit and Risk Committee considered the review which had taken place on procurement controls, procedures and testing as part of the 2015/16 Internal Audit plan. A sample testing was carried out on eight procurement activities and an overall assurance rating of 'Substantial' had been awarded.

5.2 The Committee considered the areas for development recommended by PwC. It was noted that there was no requirement on staff involved in procurement to complete training sessions, which should be addressed. In addition, it was proposed that the procurement training and guidance for staff on approval processes should be updated.

5.3 It was noted that the procurement processes used were consistent and that the Procurement team had completed a lessons learned exercise following each procurement activity which ensured continuous quality assurance. The Committee also noted that consideration would be given to the development of a more modular procurement process in response to the lessons learned arising from the processes used by Contingency Planning Teams and NHS foundation trust (NHSFT) Consultancy contracts.

6. Q1 2015/16 Risk Report (ARC/15/33)

Michelle Hazzard (Risk and Performance Manager) was in attendance for this item.

6.1 The Audit and Risk Committee noted the report which summarised Monitor's 'Top Risk' profile and directorate level risks as at the end of Q1 2015/16. The report also outlined the risk management priorities for Q2 2015/16.

6.2 Consideration was given to the new and emerging risks highlighted in the report, in particular, the 'failure to integrate Monitor and the NHS TDA effectively' and the 'risk that the Five Year Forward View failed to deliver on its ambitions resulting in NHS reform not being achieved'. The Committee noted the complexities of such detailed programmes of change and transition and the need for significant key stakeholder alignment to achieve common goals.

6.3 The Committee also noted that Monitor's risk profile had been affected by the deterioration in operational and financial performance of NHSFTs. In addition, the uncertainty surrounding the acceptance of the National Tariff by stakeholders and the sector had also had an adverse effect on the risk profile.

6.4 It was proposed that the Head of Internal Audit at Monitor, NHS TDA and NHS England should meet to discuss a joined up approach to alleviate the situation.
ACTION: HB

6.5 The Audit and Risk Committee also noted the risks that had been reworded and re-categorised in the report.

7. Annual Governance Statement and Governance Review (ARC/15/34)

Philippa Harding (Director of Operations and Performance) was in attendance for this item.

7.1 The Audit and Risk Committee considered the report which outlined the approach to be taken regarding the drafting of the Annual Governance Statement (AGS) and how it should relate to Monitor's annual corporate governance review.

7.2 Consideration was given to the articulation of the future governance arrangements between Monitor and NHS TDA within the statement. It was noted that although the statement would be reflective of the year ending 31 March 2016, it would not be published until July 2016. This would allow for appropriate comments, additions and amendments on governance, transition and controls to be incorporated.

7.3 The draft statement would be presented to the Audit and Risk Committee at its meeting on 19 November 2015.

RESOLVED:

7.4 Subject to the comments made above, the Audit and Risk Committee approved the proposed approach to the AGS and Monitor's annual corporate governance review.

8. Any other business

8.1 The Chairman of the Board indicated that it was not his intention to change the remit of the Committee at this time. Consideration would be given to this once there was further clarity on joint working arrangements between Monitor and NHS TDA.

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