

**South Tees Hospitals**   
 NHS Foundation Trust

<b>Meeting / Committee</b>	Board of Directors	<b>Meeting Date</b>	18 December 2014
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<b>This paper is for</b>	Action/Decision	Assurance	Information X
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<b>Title</b>	Minutes of an Audit Committee meeting held on 28 August 2014
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<b>Purpose</b>	The purpose of this report is to inform Board members of the debate held at a recent audit committee.
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<b>Summary</b>	<ul style="list-style-type: none"> <li>• Internal Audit work</li> <li>• External Audit work</li> <li>• Local Counter Fraud issues</li> </ul>
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<b>Prepared by</b>	David Kirby Sally McMaster	<b>Presented by</b>	David Kirby
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<b>Recommendation</b>	The Board of Directors is asked to note the attached minutes, which were approved by the audit committee on 27 November 2014.
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<b>Implications</b>	Legal X	Financial X	Safety & Quality	Strategic	Risk & Assurance X
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**MINUTES OF THE AUDIT COMMITTEE MEETING  
HELD ON THURSDAY 28 AUGUST 2014  
AT 9:30 AM  
IN THE BOARD ROOM,  
THE JAMES COOK UNIVERSITY HOSPITAL**

**PRESENT**

- Mr D Kirby - non-executive director (committee chair)  
Mr H Lang - non-executive director

**IN ATTENDANCE**

- Ms J Bryson - audit manager  
Mrs E Carter - trust clinical governance manager  
Mr L Dobbing - audit manager  
Mr C Harrison - director of human resources (*part of meeting*)  
Mr C Newton - director of finance  
Mrs C Parnell, - company secretary / executive assistant to the chief executive  
Mr R Sanghera - senior associate - PwC  
Mr G Wilson - partner - PwC  
Mrs S McMaster - senior administration officer

**1 APOLOGIES FOR ABSENCE**

Mr S Fallowfield, assistant director of audit – Audit North and  
Mr J Smith, non-executive director

**2 MINUTES OF THE MEETING HELD ON 22 MAY 2014****Decision 28Aug14 No01**

- The minutes were agreed and accepted as a true and correct record.

**3 MATTERS ARISING AND ACTION PLAN****3.1 Matters arising from 22 May meeting, not included on this agenda**

- There were no matters arising.

**Decision 28Aug14 No02**

- Noted

### 3.2 Action Plan

The action plan would be updated to reflect decisions taken at the meeting.

#### 20May2014 No09

##### Quality Report findings

An update final report would be sent to members of the audit committee.

#### 24April2014 No19

##### PwC - South Tees Charity External Audit Plan 2013/14

Materiality - Mrs Wright agreed to provide the information requested of misstatements less than £1,900.

#### Decision 28Aug14 No03

- Noted

## 4 AUDIT COMMITTEE BUSINESS PLAN

### Revised programme

The existing and revised programmes of work would be issued to all concerned, with a request to feedback and comments.

#### Decision 28Aug14 No04

- The existing and revised programmes of work would be issued to all concerned, with a request to feedback and comments by 15 September 2014.

#### 4.1 Members to make annual declaration of training needs

In accordance with the Audit Committee Terms of Reference, committee members are required to make an annual declaration of training needs, to ensure appropriate development and training.

Audit Committee members had previously identified the following areas for further development and/or training:-

- Reference costs and other issues related to tariff
- Service Line Reporting and Patient Level Information Costing System
- Financial Risk Ratings

Development sessions were provided on an on-going basis, in order to address the training and development needs of audit committee members.

Suitable conference and training opportunities were identified on an ad hoc basis to ensure that they remain current with national thinking.

The committee was asked to consider and approve a suitable training plan for Audit Committee members.

#### Decision 28Aug14 No05

- Audit Committee members agreed to discuss a suitable training plan when the new committee members joined later in the year.

## 4.2 **Controls and processes around budgetary spend and the CIP programme – update**

The Audit Committee received a report on 16 January 2014 regarding the above. The prompt for this report had been concern from the Committee that budgetary overspends that had showed in the earlier part of 2013/14 may have been indicative of budgetary controls not working.

This report highlighted actions across the Trust promoted by the Finance function, which were intended to impact on the Trust's financial position through the budgetary and performance review processes.

There were no recommendations in this report. It was to provide the Audit Committee with assurance that steps had been taken and improvements would continue to be made to strengthen and improve the management around budgetary spend and control.

Members were pleased to note this assurance.

The position regarding the Programme Assurance Office (PAO) was included in the Audit North update.

### **Decision 28Aug14 No06**

- The Audit Committee noted the report.

## 4.3 **Assurance framework and processes**

### 4.3.1 **Assurance framework**

Mrs Carter stated that the purpose of this report was to present the Audit Committee with the Board Assurance Framework for August 2014.

The Board Assurance Framework (BAF) identifies the principal risks to the delivery of the organisational objectives.

A new risk had been added relating to strategic aim 5: To increase activity and income from our secondary and specialised services and winning market share. The detail had been drafted but would need to be confirmed at Board.

The risk associated with strategic aim 8: Continuing the Journey: On-going CIP programme initially supported by McKinsey was reduced from a Red 16 (4 x 4) to an Amber 12 (4 x 3) as it was felt that the developing plan reduced the risk level.

A new risk around this aim was added and had been assigned a risk score of 12 (4 x 3): Ensure compliance with the conditions of the Trusts licence to practice

Each risk on the register would now be updated at the Board of Directors – the Quality Assurance committee would continue to review emerging risks and decide on any that required escalation. The QAC would review the controls and mitigations for current risks following the update from this meeting.

The committee is asked to receive the updated Board Assurance Framework and note the changes / new risks.

The chairman stated that the committee would continue to receive the Assurance Framework to help inform it of any matters that it should seek further assurance on regarding its work.

#### **Decision 28Aug14 No07**

- The committee received the updated Board Assurance Framework and noted the changes / new risks.

#### **4.3.2 Assurance framework process**

The purpose of this report, which was also presented by Mrs Carter, was to enable the Committee to review the adequacy and effectiveness of the underlying assurance processes for the management of principal risks to the corporate objectives.

The following supporting documents were attached:-

Appendix 1 – the board assurance framework August 2014

Appendix 2 – revised committee structure

There were three elements to the review:

- The committee structure
- The assurance framework
- The annual governance statement

The report also described the developing strategy map which, subject to approval, would be a key mechanism for monitoring delivery of the trust's objectives.

The Committee were asked to support the conclusion that the assurance framework accurately reflected the principal risks to the delivery of the corporate objectives and that the process to develop it was robust.

An audit had recently been undertaken by Audit North in relation to risk management, including scoring categories.

#### **Decision 28Aug14 No08**

- The Committee supported the conclusion that the assurance framework accurately reflected the principal risks to the delivery of the corporate objectives and that the process to develop it was robust.

#### **Decision 28Aug14 No09**

- Mrs Carter agreed to bring the risk scoring categories to the next Audit Committee meeting.

#### 4.4 **System and process for maintenance of Care Quality Commission (CQC) registration**

The purpose of this report was to update the Committee on the changes to the CQC's compliance and inspection regime and the Trusts action to respond.

- The CQC inspection regime was under review.
- The Trust would be inspected in December as part of wave 3 of the pilot of the new inspection regime.
- The CQC were revising their essential standards, these were expected to be finalised in October 2014

The Committee were recommended to receive the report. It was recommended that a further report should be presented to Audit Committee following CQC inspection and the introduction of the new standards.

#### **Decision 28Aug14 No010**

- The Committee received the report.
- An update would be brought back to a future Audit Committee meeting, following CQC inspection and the introduction of the new standards.

#### 4.5 **Business Continuity Progress update**

Progress was continuing on the alignment of all Trust business continuity plans to ISO22301, the international standard for business continuity. This is the standard which all NHS organisations must adopt to comply with the NHS England Emergency Preparedness, Resilience and Response (EPRR) Core Standards.

A further update would be brought to the March 2015 meeting.

#### **Decision 28Aug14 No011**

- Noted. A further update would be brought to the March 2015 meeting.

#### 4.6 **Review statement of Trust Compliance Policies and Processes**

Mrs Carter presented this report to provide the Committee with a review of the position in relation to current regulatory requirements and the processes and policies which provide assurance that these are being met.

The report provided an update on the regulatory framework and the Trusts current position.

The processes and structures to support regulatory compliance had been reviewed over the last two years. The current position with Monitor required that these were further reviewed and this would be undertaken as part of the external leadership and governance review.

Compliance with regulatory standards relating to quality of services would also be tested through the planned CQC assessment in December.

The Committee was asked to receive the report. It was recommended that a further report was presented to Audit Committee following the planned review and CQC inspection to identify if actions were necessary to strengthen the process and policies for regulatory compliance.

## Decision 28Aug14 No012

- The Committee received the report and agreed that a further report would be presented to Audit Committee following the planned review and CQC inspection to identify if actions were necessary to strengthen the process and policies for regulatory compliance.

### 4.7 Review of whistle blowing arrangements

The Director of HR presented this paper to provide the Audit Committee with an update in relation to the whistleblowing policy.

The report stated that the Trust has in operation a whistle blowing policy – title Reporting Concerns at Work. This had been reviewed in March 2014.

The policy was due for a further review again in March 2015 and work would begin to review the document in the autumn, taking into account lessons from the recent national reviews including Kate Lampard QC's report in the issues arising from the Savile enquiry.

The Trust's policy was reported as currently being in line with NHS Employers guidelines and available to all staff on the intranet site. Annually staff are made aware of the policy via Trust Briefing and how to raise concerns. Concerns could be raised with either the individual's line manager, their senior manager or to the Assistant Director of HR.

A very limited number of formal whistleblowing concerns had been raised in the last 2 years, 7 in total. Those that had, had been thoroughly investigated and in some cases the Trust had appointed an independent external investigator. The reporting of 'whistleblowing cases' was being added to the quarterly case management monitoring report for consideration by the Workforce Sub Group of the Quality Assurance Committee.

The Chairman expressed a view that the Board of Directors should consider what form it wished to receive details of whistle blowing incidents, action taken and the outcome.

Mrs Parnell explained that this should be a topic for governance review and consideration.

Mr Wilson concurred with the points raised and also stated that exit interviews were a very good way of identifying possible concerns.

The Audit Committee was asked to receive the report for information.

## Decision 28Aug14 No013

- The Audit Committee received the report for information

## Decision 28Aug14 No014

- It was agreed that the Board of Directors be recommended to consider how it receives whistle blowing incidents, action taken and the outcome.

#### 4.8 Duty of candour

It was agreed that the duty of candour required to be considered alongside whistleblowing and the Director of Human Resources agreed to take this matter forward

#### Decision 28Aug14 No015

- Noted.
- The Director of Human Resources to take this matter forward

### 5 AUDIT NORTH

#### 5.1 Internal Audit progress report to 31 July 2014

Mr Dobbing presented this report to inform the Committee on progress in relation to all Internal Audit work up to and including 31 July 2014 in accordance with the Internal Audit Plans for 2013/14 and 2014/15.

The report summarised work completed during the period since the last Audit Committee from both the 2013/14 and 2014/15 Internal Audit plans. The former having been taken into account as part of the Head of Audit opinion presented in May 2014, and in particular the limited assurance report relating to Risk Management. A briefing had been provided to the Quality Assurance Committee in July 2014. The report identified a number of areas that could be strengthened, including risk scoring, escalation processes and action planning and monitoring.

In total, the progress report summarised 16 outputs, including 6 limited assurance reports. These being:

- Risk Management Process/ Selected Key Risk Assessments
- Portable IT devices – Follow up
- Contract Compliance
- IM&T Audit – Dictation system
- Use of taxis
- IM&T Audit - Datix Risk Management System IT General Controls Review.

In respect of the above, issues had been identified in relation to financial control, governance, asset management as well as opportunities for cost savings and maximising income.

Of most concern were the weaknesses identified in respect of the outpatient pharmacy contract and associated management processes, these issues had been incorporated within the Contract Compliance audit.

Brought to the Audit Committee's attention was a 'not agreed' medium recommendation in respect of the Datix System Review-IT General Controls Review, where management had indicated they were content to rely upon the compensating controls in place rather than to confirm the users with access to the system as being current staff members.

Audit North had also completed a review of the Programme Assurance Office (PAO). A level of assurance had not been assigned to this review as the approach had been based upon a series of observations and the interaction with this resource. Findings raised a number of concerns that the Trust should consider as part of the transformational arrangements.

It was also noted that within the orders, receipt and payments report, albeit a significant assurance opinion overall, a number of recommendations had been made relating to the Trust arrangements for strengthening its controls regarding supplier and bank mandate fraud.

There had been a continued increase in the level of outstanding medium grade recommendations, over the previous 12 months. As at 31 July 2014, 40 such recommendations were reported as being outstanding and overdue, there were 12 reported as at June 2013.

Management had requested extension dates for seven recommendations, contained within the following reports:

- 1 05/12 E-Rostering,
- 2 20/13 Follow-up - Consultants Job Plans (2 recommendations),
- 3 30/13 Staff Records,
- 4 33/14 Pre-Employment Checks
- 5 37/14 Recording of Mandatory Training (2 recommendations).

The Chairman asked the Company Secretary to remind the owners of the recommendations 2-5, of the concerns of the committee for these to be progressed as soon as possible.

Finally, there had been two requests for changes to the Internal Audit plan for 2014/15:

- Director of Finance & IT had made a request to replace the review of Infoflex General Controls with a review of the IT Helpdesk.
- The Director of Strategy and Infrastructure had requested a delay to the audit of Post Project Evaluation, to allow for actions arising from the McKinsey work to be finalised and become embedded.

The Audit Committee was requested to;

- Note the contents of the progress report.
- Approve the proposed changes to the internal audit plan.
- Approve the extension request for seven recommendations.

Members noted the report regarding the PAO in the light of the earlier agenda item 4.2, and the improvement in operation via the Transformation Office. It was also noted that the Chief Executive had received a copy of this report for action.

Members asked that Audit North should ascertain where recommendations were not agreed that if compensating controls were not put in place, the risk register should be updated if appropriate. Where compensating controls were put in place, these should be assessed in any follow up audit.

#### **Decision 28Aug14 No016**

The Audit Committee:

- Noted the contents of the progress report.
- Approved the proposed changes to the internal audit plan.
- Approved the extension request for seven recommendations.

## 6 PRICEWATERHOUSECOOPERS

### 6.1 South Tees Hospitals Charity and Associated Funds – ISA 260 Report

The purpose of this report was to update the members of the Audit Committee on the progress of the audit and of any significant matters that had arisen during the course of our work.

Mr Sanghera stated that subject to the satisfactory resolution of the small number of outstanding matters, PwC expected to issue an unqualified audit opinion for the Charity.

There were no significant matters arising from the audit which PwC needed to report to Audit Committee members.

The Audit Committee were requested to note the contents of the report.

#### Decision 28Aug14 No017

- Noted

## 7 ADOPTION OF SOUTH TEES HOSPITALS GENERAL CHARITABLE FUND ANNUAL REPORT AND ACCOUNTS 2013/14

The annual report and accounts 2013/14 were being presented to the audit committee for approval and were required to be filed with the Charity Commission by 31 January 2015.

The charitable funds annual accounts 2013/14 reported incoming resources of £2.4 million, resources expended of £2.8 million, resulting in fund balances carried forward at 31 March 2014 of £6.8 million.

The audit opinion was to be issued within the governance report from PricewaterhouseCoopers LLP with the signed certificate to be included within the accounts, following adoption by the Charity's trustees.

The Audit Committee were requested to receive and approve the charitable funds annual report and accounts 2013/14.

#### Decision 28Aug14 No018

- The Audit Committee received and approved the charitable funds annual report and accounts 2013/14.

## 8 NURSERY UPDATE

The purpose of this paper was to provide the Audit Committee with an update on the action taken following the internal audit report received in March 2014 into the Trust's Day Nursery income, fees and charges.

An internal audit investigation had been instigated by the Director of HR into the Day Nursery income, fees and charges as part of the 2013/14 annual internal audit plan.

The audit resulted in an opinion of limited assurance. The report provided an update on the actions taken to address the recommendations made and provided assurance that the concerns expressed had or were being addressed.

The Audit Committee was asked to note the action taken to date.

### Decision 28Aug14 No019

- The Audit Committee noted the action taken to date.

### Decision 28Aug14 No020

- An update would be brought back to the Audit Committee when appropriate.

## 9 ENGAGEMENT OF PwC TO UNDERTAKE NON AUDIT SERVICES

The Chairman presented this paper to advise the audit committee of two pieces of work which have been recently undertaken by PwC for the trust.

PwC had recently been engaged to undertake two pieces of work for the trust:-

- A review to establish a timeline of events leading to the declaration of Continuity of Services Risk Rating (CoSRR) 3 in October 2013, subsequently amended to CoSRR 2 for 2013/14 and CoSRR 1 for 2014/15
- PFI Contract Options

In both cases work needed to be undertaken quickly, therefore the chairman of the audit committee had sought agreement from audit committee members, to instruct PwC to proceed.

This work had been fully compliant with the trust policy to manage the non audit services provided by the external auditor. PwC had provided appropriate responses to the four questions contained within the policy for both pieces of work.

The Audit Committee were asked to note this information.

### Decision 28Aug14 No021

- Noted

## 10 ANY OTHER BUSINESS

- There was no further business to report

## 11 NEXT MEETING

- Thursday 20 November 2014  
9:30 am  
Board Room, Murray Building