

South Tees Hospitals

NHS Foundation Trust

Meeting / Committee	Board of Directors	Meeting Date	31 July 2012		
This paper is for	Action/Decision	Assurance	Information X		
Title	Minutes of an audit committee meeting held on 24 May 2012				
Purpose	The purpose of this report is to inform Board members of the debate held at a recent audit committee.				
Summary	<p>The paper provides information on:</p> <ul style="list-style-type: none"> • Internal Audit work • External Audit work • Local Counter Fraud issues 				
Prepared by	David Kirby Sally McMaster	Presented by	David Kirby		
Recommendation	The Board of Directors is asked to note the attached minutes, which were approved by the audit committee on 19 July 2012.				
Implications	Legal X	Financial X	Safety & Quality	Strategic	Risk & Assurance X

**MINUTES OF THE AUDIT COMMITTEE MEETING
HELD ON THURSDAY 24 MAY 2012
AT 9:30 AM
IN THE BOARD ROOM,
THE JAMES COOK UNIVERSITY HOSPITAL**

PRESENT

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

IN ATTENDANCE

- Mr N Austin - engagement lead – PricewaterhouseCoopers (PwC)
Mr R Auty - engagement manager - PwC
Mr S Fallowfield - assistant director of audit – Audit North
Mr I Fuller - head of corporate finance
Ms R James - deputy director of healthcare governance and quality
Mrs S McMaster - senior administration officer
Mr C Newton - director of finance
Mr B Simpson - financial services manager (part of meeting)
Mr G Thompson - assistant director of audit
Mrs N Wright - engagement lead - PwC

1 APOLOGIES FOR ABSENCE

Apologies for absence were received from Dr G Ewart OBE, non-executive director; Mr H Lang, non-executive director; Mrs A Marksby, communications lead; Mrs C Parnell, company secretary/executive assistant to the chief executive; Mr S Pleydell, chief executive; and Mr J Whitehouse, director of audit - Audit North

2 MINUTES / NOTES OF PREVIOUS MEETINGS

2.1 Notes of the Annual Accounts briefing held on 10 May 2012

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

Decision 24May12 No01

2.2 Minutes of the meeting held on 19 April 2012

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

3 MATTERS ARISING FROM THE 19 APRIL MEETING, NOT INCLUDED ON AGENDA

3.1 Matters arising

- There were no matters arising.

Decision 24May12 No02

- Noted

3.2 Action Plan

- The action plan would be updated to reflect the following decisions:-

Status following 24 May 2012 meeting completed outstanding on agenda Ongoing	Minute Ref	Business Plan Ref	Item	South Tees NHS Foundation Trust Audit Committee Action Point		Lead	Expected date of completion	Status at 24 May 2012 meeting completed outstanding on agenda next meeting Ongoing
Completed	19Apr12 No07	13.2.1 a.i	Draft Annual Governance Statement 2011/12	An updated report would be brought to the next meeting.		Ruth James	May-12	On agenda
Completed	19Apr12 No09	13.2.1 a. iv	Draft Quality Account 2011/12	An updated report would be brought to the next meeting.		Ruth James	May-12	On agenda
Next meeting	22Mar12 No20		Local Counter Fraud - Progress Report	Mr Whitehouse to report back on publicity for redress/sanctions.		John Whitehouse	Jul-12	Outstanding
Next meeting	09Nov11 No16		update following discussion at risk and assurance committee (corporate risk register)	The chairman acknowledged the work that had been undertaken in relation to the risk register and invited Ruth James to return to the audit committee in six months time to give feedback on how valuable the exercise had been.		Ruth James	Jul-12	Outstanding
Completed	22Mar12 No11		Audit Committee self assessment	Q30 Has the Committee reviewed the robustness of the data behind reports and assurances received by itself and the Board?		Chris Newton / IA	Sep-12	Outstanding
Completed	22Mar12 No16		Director of finance report	Mr Fuller would feedback to the committee on the Monitor consultation once the response had been received and present to a future investment committee on the MEA implications.		Iain Fuller	When appropriate	Outstanding

Outstanding
Completed
Next meeting
On agenda

Decision 24May12 No03

- Noted

4 **AUDIT COMMITTEE BUSINESS PLAN**

- The audit committee business plan would be updated to reflect discussions and actions completed at the meeting.

ToR Ref	Audit Committee Terms of Reference	Status
11.0	Ensure that appropriate support is provided to the chair and members of the committee, and that minutes of the proceedings are taken.	Amber at 24 May 2012
13.4.1	Discussion and agreement with the external auditor before the audit commences, of the nature and scope of the audit in the annual plan, and ensuring co-ordination as appropriate with other external auditors in the local health economy.	Amend to September 2012
13.6.2	The committee will review the work of other committees within the trust whose work can provide relevant assurance to the audit committee.	Amend to July 2012

Decision 24May12 No04

- Noted

5 **ANNUAL FINANCIAL STATEMENTS**

5.1 **Internal Audit Annual Report 2011/12**

Mr Fallowfield presented the Audit North Annual report incorporating the Head of Audit Opinion, for 2011/12.

The scope of the opinion covered all the key areas planned for, including any areas that were requested in the year. The opinion was also consistent with the detailed reports the Audit Committee had received during 2011/12, and where appropriate any post year-end work that had been undertaken or events which Audit North had been brought to the attention of colleagues.

The committee were requested to receive the report and note the ‘significant assurance’ opinion and Head of Internal Audit opinion, commenting on the assurance framework and the summary of Internal Audit work for 2011/12. The scope of the opinion covered all the key areas planned for, including any areas that were requested in the year.

Mr Fallowfield agreed to update the report to reflect members’ comments.

All Audit North work is governed by the Government Internal Audit Standards. During the year they had operated processes and procedures in accordance with their Quality Manual, to maintain compliance with these standards.

Decision 24May12 No05

- The committee received and noted the content of the annual report, subject to it being updated to reflect members’ comments.

5.2 **Annual Governance Statement 2011/12**

Ms James presented this report to provide the committee with the opportunity to review and comment on the final draft of the Annual Governance Statement prior to inclusion in the 2011/12 Annual Report.

The covering report described the issues the committee should consider before confirming support for the Boards approval of the Statement.

The final draft of the Annual Governance Statement had been further updated to cover feedback from the external auditors.

The conclusion of the statement was that:

- The trust had not identified any significant control issues for the financial year ending 31 March, 2012, which required reporting within the statement.
- South Tees Hospitals NHS Foundation Trust had a generally sound system of internal control that supported the achievement of its policies, aims and objectives.

The report included a summary of amendments made to the final draft, and for ease of reference all changes had been highlighted in red.

Mr Auty confirmed that PwC colleagues were satisfied with the content of the report.

The Committee was asked confirm its support for the Board approval of the Annual Governance Statement for 2011/12.

Decision 24May12 No06

- The Committee confirmed its support for the Board approval of the Annual Governance Statement for 2011/12.

5.3 **PwC Management Letter on the Trust accounts 2011/12**

Mr Auty prepared this report to present the PwC management letter to those charged with governance.

This report summarised PwC's audit work on the annual report and accounts of the trust for the year ended 31 March 2012.

Subject to satisfactory resolution of outstanding matters, the finalisation of the financial statements and their approval by those charged with governance PwC expected to give an unqualified opinion.

Mr Auty ran through the report answering questions as they arose.

Mr Newton, Mr Fuller, Mr Simpson and members of the finance team were thanked for their support and cooperation during the audit.

It was noted that the audit of Charitable Funds was on-going and these would be brought to the 19 July 2012 meeting.

The Audit Committee were asked to review the findings of the report. The committee were also asked to give delegated approval to the Chair to approve the final version of the management letter on satisfactory resolution of outstanding matters.

Members reviewed the uncorrected misstatement amounting to £640k and taking into account that this was not material, was discovered late in the process and the concerns of the director of finance that on further investigation there may be offsetting adjustments, the Committee agreed to recommend to the Board that this misstatement should not be adjusted in the 2011/12 financial statements and that the accounts be adopted.

Decision 24May12 No07

- It was noted that the audit of Charitable Funds was on-going and these would be brought to the July meeting.

Decision 24May12 No08

- The committee reviewed the findings of the report and agreed to give delegated approval to the chair of to approve the final version of our management letter on satisfactory resolution of outstanding matters.

Decision 24May12 No09

- To recommend to the Board not to adjust the uncorrected misstatement in the 2011/12 financial statements.

5.4 Quality Report findings

Mr Austin and Mr Auty jointly presented this report which provided a summary of audit work on the Quality Report of the Trust for the year ended 31 March 2012.

Ms James confirmed that the Quality Report would be presented in the public domain at the Board of Directors meeting on 31 May 2012.

The committee were asked to note the findings of the report.

Decision 24May12 No010

- Noted

5.5 Going Concern

Mr Fuller circulated a paper to allow members to review and comment upon the content of the statement of going concern for 2011/12, prior to submission to the Board of Directors.

The accounts had been prepared on a going concern basis and this was appropriate for the accounts to be prepared on this basis as the trust is a going concern. There were no significant doubts about the trust's ability to continue as a going concern that required disclosure.

The Audit Committee were asked to agree the statement and recommended its adoption by the Board of Directors on 31 May 2012.

Decision 24May12 No011

- The Audit Committee noted the issues raised agreed the statement and recommended its adoption by the Board of Directors on 31 May 2012.

5.6 Trust Annual Report (extract) - 2011/2012

Mrs Marksby has prepared this report to provide an update to the Audit Committee about extracts included in the trust's annual report and summary accounts 2011/2012, which contain financial information.

Relevant sections included:-

- Chairman and chief executive's statement
- Directors' report and business review
- Audit Committee
- Summary of financial performance (draft complete – subject to audit)

The Audit Committee were requested to note and approve the above extracts of the trust's annual report and summary accounts 2011/2012.

Decision 24May12 No012

- Subject to minor amendments, the Audit Committee noted and approved the above extracts of the trust's annual report and summary accounts 2011/2012.

5.7 Review of Annual Financial Statements including full set of accounts – 1 April 2011 to 31 March 2012

Mr Fuller presented this report to inform members of the position, in relation to the review of annual financial statements. The annual accounts statements for the period 1 April 2011 to 31 March 2012 were attached for consideration.

The Chair welcomed the statements, commenting that the information gave assurance to members about the reasons for the changes to the accounts.

Mr Fuller ran through the report, and provided clarity on a minor change, since the briefing to the on 10 May, in relation to the statement of comprehensive income.

Mr Auty confirmed that all figures had been audited and were found to be correct, subject to a final check prior to submission to the board of directors for approval.

In addition, Mr Fuller agreed to produce a further summary to be tabled on 31 May, for the Board of Directors, to help members understanding.

The chairman thanked PwC colleagues and also the finance team for their work to produce the accounts, which was very thorough and comprehensive. Whilst accepting that the first year of audit necessarily involved familiarisation effort that would not need to be reported, and the short timescale involved, the chairman was keen to ensure that for future years timetables allowed committee members and the Board, as much time as possible to consider the final accounts.

It was agreed that discussions would take place outside the meeting with the chairman, PwC colleagues and Mr Newton to discuss planning schedules for 2012/13.

Members were requested to note the current position in relation to review of the annual financial statements.

Members agreed to recommend to the Board adoption of the financial statements

Decision 24May12 No013

- Mr Fuller agreed to produce a further summary to be tabled on 31 May, for the Board of Directors, to help members understanding.

Decision 24May12 No014

- It was agreed that discussions would take place outside the meeting with the chairman, PwC colleagues and Mr Newton to discuss planning schedules for 2012/13.

Decision 24May12 No015

- Members noted the current position in relation to review of the annual financial statements and agreed to recommend to the Board adoption of the financial statements.

Mr Simpson left the meeting

6 AUDIT NORTH

6.1 Internal Audit progress report to 30 April 2012

The audit committee were requested to note progress in relation to the 2011/12 Internal Audit Plan. Specifically;

- Five outputs had been finalised since the last progress report and a significant amount of audit work was reported to be in progress, with 10 reports awaiting responses from management.
- The Medical Devices training report which was issued as a draft with a 'No Assurance' opinion had been revised to a 'limited' opinion based on further information and assurances provided by management. Audit North were working with colleagues to finalise this report.
- Outstanding recommendations continued to be closely monitored with the overall number of High priority actions remaining constant with the previous progress report over the period of reporting.

Mr Fallowfield confirmed that the following surveys were now complete:

- IM&T – ICT User Satisfaction Survey
- Healthcare Records Survey

A summary of the findings from these surveys would be provided for a future meeting.

Mr Fallowfield also gave an update on progress with recommendations in relation to the Homecare Companies report ref. 23/10. The Committee expressed concern that progress on this matter had been not made, and requested, if possible, internal audit provide additional support to help progress this matter.

It was also noted that a report on this issue was due to be presented to a future management group meeting and the director of finance indicated he would make the FMG aware of the Audit Committee concerns

Approval was sought to make the following changes to the Annual Plan for 2011/12:-

- *“On call Payments – We were advised by the Head of Corporate Finance that this review was no longer required due to national developments with the way in which these payments are made.*
- *The planned review of the Pharmacy ordering system was included within our review of key financial systems based upon discussions with the trusts previous External Auditors. The current External Auditors have indicated that they do not consider this review necessary and therefore we have placed this on hold pending a discussion with the Audit Committee.*
- *We have been advised by the Deputy Director of Governance & Quality that the CQC (Care Quality Commission) review within Community Services is no longer required due to the harmonisation of associated processes and procedures. A review of CQC registration is within the 2012/13 Internal Audit plan and will be completed across community and acute services.”*

The Audit Committee were requested to:-

- Note the content of the progress report and progress to date.
- Review and approve revised recommendation implementation date.
- Review and approve proposed changes to the Audit plan for 2011/12.

Decision 24May12 No016

- The Audit Committee noted the content of the progress report and progress to date.
- Reviewed and approved revised recommendation implementation date.
- Reviewed and approved proposed changes to the Audit plan for 2011/12.

Decision 24May12 No017

- A summary of the findings from the IM&T – ICT User Satisfaction Survey and the Healthcare Records Survey would be provided for a future meeting.

7 LOCAL COUNTER FRAUD

7.1 Annual Counter Fraud Plan 2012/13

Mr Thompson prepared this report to advise the committee of the Draft Annual Counter Fraud Plan for 2012/13.

The draft Counter Fraud Plan aimed to deliver a balanced range of activity including strategic work, nationally mandated proactive work and local proactive work determined by a local organisational level risk assessment using the trust's own 5x5 risk management process. It also included a nominal allocation of days for preliminary investigation of referrals.

Although the proactive areas had been identified within the plan there was scope to tailor the specified work schedules following further engagement with management. This would enable the work to be calibrated to the level of risk assessed and targeted to the areas of concern.

The plan remained flexible in order to address any emerging issues in year including any additional direction from NHS Protect.

The chairman raised a question in relation to the process for companies changing bank accounts and how to confirm that payments have been made to a valid company and to the correct bank account. Mr Fuller agreed to bring a paper to a future meeting to explain this process.

It was agreed that the Internal Audit Plan and the Annual Counter Fraud Plan 2012/13, would be presented at a Formal Management Group meeting. Mr Fallowfield would liaise with Mr Newton regarding convenient date.

The Audit Committee were requested to approve the draft plan.

Decision 24May12 No018

- The Audit Committee approved the draft plan, subject to agreed amendments being made.

Decision 24May12 No019

- Mr Fuller agreed to bring a paper to a future meeting to explain the process for companies changing bank accounts and how to confirm that payments have been made to a valid company and to the correct bank account.

Decision 24May12 No020

- The Internal Audit Plan and the Annual Counter Fraud Plan 2012/13 would be presented at a Formal Management Group meeting. Mr Fallowfield would liaise with Mr Newton regarding convenient date.

7.2 Counter Fraud Annual Report 2011/12

Mr Thompson prepared this report to present the committee with the Counter Fraud Annual Report for 2011/12.

The Annual Report detailed all Local Counter Fraud Service work, both proactive and reactive, undertaken by Audit North for the year ended 31 March 2012. It outlined work completed at the Trust during 2011/12 in each of the seven specific areas of NHS Protects Strategy:

- The creation of an anti-fraud culture
- The maximum deterrence of fraud
- The successful prevention of fraud
- The prompt detection of fraud
- The investigation of fraud
- The application of appropriate sanctions
- Seeking redress

Section 2 of the report showed a summary of counter fraud work undertaken during the financial year April 2011 to March 2012. There had been nine referrals throughout the year.

Section 3 of the report gave the Qualitative Assessment Results/QA Review. All NHS organisations had been required to complete and return a self-declaration to enable NHS Protect to determine a rating of the quality of local counter fraud work.

There were four levels with level one being limited outputs, level two evidence of a range of outputs, level three organisation performing well and level four organisation performing strongly. The Qualitative Assessment rating awarded by NHS Protect to the trust for the financial year 2010/11 was Level 2 – 'evidence of a range of outputs'. The assessment results for 2010/11 confirmed in January 2012 included an action plan which the counter fraud team had reviewed and any issues raised would be supported by the 2012/13 work plan.

The chairman suggested that it would be useful to have a table showing trust data in relation to types of fraud being reported, compared with those being reported nationally.

The committee were asked to note the contents of the report.

Decision 24May12 No021

- Mr Thompson would produce a table showing trust data in relation to types of fraud being reported, compared with those being reported nationally.
- Noted

8 DRAFT QUALITY ACCOUNT

The paper provided the Audit Committee with the opportunity to review the process undertaken to develop the 2011/12 Quality Account and the changes made following feedback from the auditors prior to submission to the Board for inclusion in the 2011/12 Annual Report.

The covering report described the issues to be considered by the Committee before confirming support for the Boards approval of the 2011/12 Quality Account.

It was recommended that the Committee confirmed its support for the Board approval of the Quality Account for 2011/12.

Decision 24May12 No022

- The Committee accepted the report and confirmed its support for the Board approval of the Quality Account for 2011/12.

9 AUDIT COMMITTEE ANNUAL REPORT

The purpose of this report was to highlight to Audit Committee members the final draft of the annual report for 2011/12 in preparation for this being submitted to the Board of Directors.

The report covered the activity of the committee for the 2011/12 financial year. The report had been produced to provide assurance to the Board on the level of adherence to the agreed terms of reference, and to provide a summary of the work undertaken as an independent sub-committee of the Board. This annual report to the Board followed the recommendations of the NHS Audit Committee Handbook 2011.

The committee were requested to approve the draft of the annual report and to highlight any outstanding points in the report.

Decision 24May12 No023

- The Audit Committee approved the draft of the annual report which would be presented to the Board of Directors on 31 May 2012.

10 ANY OTHER BUSINESS

- There was no further business to report.

11 NEXT MEETING

- Thursday 19 July 2012
9:30 am
Board Room, Murray Building