

**BOARD PAPER - NHS ENGLAND**

**Title:** Report of the audit committee

**Clearance:** Ed Smith, Chair of the audit committee  
Paul Baumann, Chief Financial Officer

**Purpose of paper:**

- To inform the Board of the work undertaken by the audit committee.

**Key issues and recommendations:**

- This paper contains an update on the committee's activities and key points which the committee wish to draw to the Board's attention.

**Actions required by Board Members:**

- To note the work of the audit committee.

## Report of the Audit Committee

1. The audit committee met on 17 June 2013. They approved minutes of their previous meeting on 13 May 2013 which are attached at Annex A for information.
2. The key points from the June meeting which the committee wish to draw to the Board's attention are as follows:
  - The Issues List set out in Annex B. This concept is a way of bringing to the Board's attention the highest profile and urgent matters with respect to internal control with the expectation of a clear action plan and timetable from management to ensure that they can be removed from the Issues List quickly. To date we have four items – the operation of the Clinical Risk and Quality Committee, complaints handling, payroll and VAT on Property – although there remain other risks which are being monitored and which are outlined below.
  - The Board Assurance Framework (BAF) is now, after a slow start, making very good progress and will become an important Board tool to provide oversight of key risks, their mitigation and active management. This should form a key part of the overall Board reporting information and will drive (along with additional risk profiles from the business plan and our wider activities) internal audit work and the formal assurance requirements for NHS England.
  - Deloitte presented the internal audit plan for 2013/2014. This is an extensive and comprehensive plan, which is essential in our first year of operations, and it will require the full cooperation of our staff and oversight by the full executive through Paul Baumann. There are some additional items, which Paul Baumann and the audit committee would like to see covered, subject to resource availability, and their inclusion will be considered as progress is made with the core programme. The audit committee will provide detailed oversight of the internal audit assurance and report key weaknesses and other matters to the Board during the year.
  - The audit committee and finance leadership discussed the outline plans for 2013/2014 year end financial statements and annual report. Whilst this is some months away, it was agreed that planning must start now, with expectations being set for reporting entities (crucially, including CCGs), and that a dry run should be conducted at the six month stage with a full 'hard close' at the nine month stage. Management is scoping this work, the key dependencies and timetable so that we can aim to meet our statutory obligations before recess in July 2014. This is an enormous and challenging task.
  - There is concern that there is little visibility on whether the cut over and consolidation of the new structures is working effectively from a financial reporting point of view because there has not been a full financial report. This

will be monitored during the first part of the year since it is also linked with the transfer of balances from the old structures.

3. I am happy to discuss the content of this report, issues otherwise included in the audit committee minutes or other matters of Board concern. In summary, the required audit committee processes and key components of assurance on internal controls are now in operation, but with a full and challenging work programme for management and our assurance providers.

**Ed Smith**

**Audit Committee Chair**

**July 2013**

## NHS COMMISSIONING BOARD AUDIT COMMITTEE

### Minutes of the meeting held on 13 May 2013

**Present:**

Ed Smith	Non-executive Director (Chair)	ES
Naguib Kheraj	Non-executive Director	NK

**Apologies:**

Moira Gibb	Non-executive Director	MG
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**In Attendance:**

Paul Baumann	Chief Financial Officer	PB
Sheenagh Powell	Director of Financial Control	SP
Richard Lawton	Head of Financial Accounting & Services	RL
Stephen Fell	Head of Assurance & Procurement (Secretariat)	SF
Jon Schick	Board Secretary	JS
David Noon	Deloitte LLP	DN
Morag Childs	Deloitte LLP	MC
Colin Wilcox	National Audit Office	CW
Paul Holland	National Audit Office	PH
Nigel Bell	West Yorkshire Audit Consortium	NB
Martin Wiles	NHS Protect (Item 6 only)	MW
Richard Murray	Chief Analyst (Item 7 only)	RM

**1. Welcome & Introductions**

***Apologies for Absence***

- Apologies had been received from Moira Gibb.

***Declarations of Interest in Matters on the Agenda***

- There were no member declarations of interest in matters on the agenda.

## 2. Minutes of the Previous Meeting

### ***Meeting of 15 February 2013 Minutes***

- The minutes of the meeting held on 15 February 2013 were AGREED as an accurate record.
- ES noted that at Item 5 diaries had precluded NK from being on the internal audit evaluation panel.

### ***Chair's Report to the Board***

- The Chair's report to the Board on the previous meeting was NOTED by the Committee.

### ***Action Log***

- PB reported that first half accounts were ready for signing, but the Chief Executive was now on holiday, which had delayed actual signing.
- ES requested the paper on assurance required relating to CCG accounts and internal controls to be presented to the June 2013 meeting.
- The June 2013 meeting has been confirmed as a 9.00am start.
- Other items were included on the agenda or not yet due.

### ***Matters Arising***

- There were no matters arising that were not on the agenda.

## 3. Internal Audit & Counter Fraud 2012-13

### ***Internal Audit Progress Report***

- NB presented the paper, noting three final reports and five draft reports had been presented, with four other audits deferred at the request of management.
- Further work in six areas will be completed over May 2013.
- ES queried whether the six areas were the correct focus for May. PB responded Direct Commissioning was a significant piece of work, which would be better delivered by the new Internal Auditors. Other areas looked sensible as most followed existing work already undertaken, however some

may not complete in this timescale and would need handing over to the new Internal Auditors.

- Financial reporting was debated specifically, with PB indicating the current Internal Auditors would only be able to review the principles of what is being proposed, the substantive testing of reporting would not be possible until month 2 and more specifically month 3 reporting, as reports are still being developed and month 1 reporting is not being proposed.
- CW queried whether not doing the four deferred audits introduced an issue for the Governance Statement. PB noted most were forward looking reports, so should not impact on the Statement for the six months to March 2013.
- Follow up of actions was discussed, with Deloitte confirming this would form part of the Progress Report to each Committee.
- ES noted Complaints should be specifically monitored. NK noted this may need to be raised at Board level, as responsibility for complaints within the management structure was not clear to him. JS noted reporting on complaints needs to form part of Board performance reporting, which is still being developed. ES proposed that a “hit list” of significant internal audit and other control and risk assurance matters is established which is managed by the Head of Internal Audit in conjunction with the Director of Financial Control. This would be used as a monitoring and escalation tool for the Board. This was agreed and the internal audit findings on Complaints would be the first item on this “hit list”.
- Pre-employment checks was noted as at a point in time, and was hopefully now resolved. At follow up this would be tested to ensure the issues had been resolved.
- NK noted the size of the bank reconciliation process, with just two accounts must be significant, and potentially easy to lose control of. RL explained this is subcontracted to NHS Shared Business Services who have a dedicated team. Whilst significant values are going through the accounts, these are generally a small number of large payments as opposed to lots of small payments.

**Action AC-2013-01: A “hit list” to be established with Complaints included as the**

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**first item with reporting to the Board on a periodic basis (DN,SP and JS)**

***Annual Report & Draft Head of Internal Audit Opinion 2012-13***

- NB presented the paper, noting the format is in accordance with guidance. The opinion is Significant Assurance.
- ES noted the discussion on the Governance Statement earlier.

***Counter Fraud Update***

- NB reported a policy has been drafted, which is with management.
- No investigations had been necessary in the six months.

**4. External Audit & Financial Reporting**

***External Audit Progress Report***

- CW presented the paper, noting the audit has only just kicked off. Audit risks for 2013-14 had been reviewed the previous week with management. Most issues were anticipated to be resolved in the normal course of events, with the biggest being transfer of legacy balances. CW highlighted interaction with CCG auditors and NHS Property Services disclosures as other significant issues.
- ES noted the issue of support to NHS Property Services was beyond the remit of the Committee. CCG governance is of particular concern, given the need for CCGs to prepare a Governance Statement in 2014, which the NHS CB will need to rely on to produce its Governance Statement.
- The issue of CCG audit arrangements was discussed, with ES expressing a view that strong control on matters critical to NHS England obligations for consolidated accounts and Governance reporting would be necessary from the centre to achieve the desired outcome. PB confirmed the proposed approach would be reported back to the June meeting.
- CW expressed his understanding that the problems with legacy balances had been passed over to NHS CB. PB confirmed discussions were still ongoing, with further guidance due imminently. It was noted it was unclear where cash was flowing, as it appeared not to be following associated

	<p>liabilities. Significant debate occurred amongst members.</p> <ul style="list-style-type: none"> <li>ES queried what input he could have that would help the process. PB noted there were two options, one to wait until things were clearer, at which time it may be too late, the second for a letter to be issued to Department of Health that raised the issue as of significance. It was AGREED SP would draft a letter for ES to issue to Department of Health.</li> <li>PB confirmed management would be keen to progress the proposed Process Management Review, subject to timing.</li> </ul>
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**Action AC-2013-02: Approach to CCG audit arrangements to be reported to the June 2013 meeting (PB)**

**Action AC-2013-03: SP to draft a letter for ES to send to Department of Health regarding the asset transfer process**

	<p><b><i>Draft Governance Statement and Accounts for the 6 months ended 31 March 2013</i></b></p> <ul style="list-style-type: none"> <li>SP presented the accounts, highlighting the Governance Statement is still draft for comment.</li> <li>Final accounts are due to be submitted on 10 June 2013, with the Committee not meeting to approve them until 17 June 2013. The NAO and Department of Health are happy with this for the current year, but dates will need reviewing for next year end.</li> <li>NK queried whether management had been expecting to underspend by £20m. PB noted an under-spend had been expected, but delays in people coming on payroll had pushed this to a higher figure than was expected. In addition some overly pessimistic forecasting of potential outturn positions had possibly occurred to 'protect' budgets.</li> <li>NK queried how robust forecasting would be delivered in future. PB confirmed this was an issue that was being worked on to ensure robust processes going forward.</li> <li>NK noted in other organisations he has received a paper on areas of significant judgement ahead of the year end.</li> <li>A number of changes and corrections on the papers were noted.</li> </ul>
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**Action AC-2013-04: Presentation of a paper on areas of significant judgement to be built into the 2013-14 year end timetable (SP)**

***NHS Institute for Innovation & Improvement Annual Report & Accounts 2012-13***

- The paper was NOTED.
- NK queried why they were being presented. SF explained it is a technical issues as David Nicholson has inherited the role of Accounting Officer on dissolution of the NHS Institute, and therefore it is appropriate for them to go through the NHS CB governance process.
- PB confirmed a full briefing and a “back to back” letter of representation would be provided with the annual report & accounts at the time of signing, from officers of the NHS Institute.

**Action AC-2013-05: Briefing paper and letter of representation from the NHS Institute to be included with the Annual Report & Accounts being presented to David Nicholson for signature (PB)**

***NAO Audit Completion Report on the NHS Institute for Innovation & Improvement***

- The paper was NOTED.

**5. Internal Audit 2013-14**

***Planning Progress Report***

- DN talked through the work that was planned over the next few weeks to get to a draft plan, which would be presented to the June meeting.
- DN asked the Committee’s permission to agree work with management that would benefit from commencing before formal contract start and approval of the plan in June.
- ES and NK confirmed they were happy for this to occur.
- ES confirmed high priorities were basic processes. CW noted risk strategy and processes are still being developed, particularly formal risk registers (though accepting risks are well understood).
- Discussion occurred around online and clinical input.

- NK queried the location of auditors. It was confirmed it was intended to embed auditors in the business.
- ES highlighted the need to make National Directors time available to make the plan robust. PB confirmed he would raise this with the ETM.
- SF confirmed contractual issues were progressing. It is proposed to circulate a set of KPIs after the meeting, based on the proposed KPIs in the Deloitte bid. Further KPIs would then be agreed as part of the annual plan and each audit.

**Action AC-2013-06: SP to send the Deloitte proposal to NK and MG**

**Action AC-2013-07: SF to circulate proposed contractual KPIs for agreement**

## 6. Counter Fraud 2013-14

### ***NHS Protect Review***

- MW joined the meeting.
- MW presented the paper, highlighting there are definitely 80 cases transferring to the NHS CB, with a further 27 still being reviewed.
- NK requested an explanation of NHS Protect's role, which MW provided.
- It was explained that historically counter fraud work had been subject to a framework of requirements, which do not apply in the new commissioning system. PH noted this allows the NHS CB to return to a risk based approach, which MW confirmed was the approach being adopted in the work.
- ES queried what direction had been provided to CCGs. SP explained the need for counter fraud arrangements is included as part of CCG licencing, but the level is not specified. There is therefore the potential to specify what appropriate arrangements look like.
- It was noted the largest area of risk inherited from PCTs is in the area of direct payments, which all now sits with NHS CB.
- MW confirmed investigation of open cases is being picked up by Deloitte, and this will kick off on the following day.
- Part of the proposed work will look at economic crime (identification of, qualification of and production of proposals to address). MW reinforced that

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	<p>the level of estimated fraud in one area, could not be applied on a blanket basis to other areas.</p> <ul style="list-style-type: none"> <li>ES queried what work is currently being done, both proactively and reactively. SF confirmed reactive is being progressed via reporting to the national fraud help line and investigation by Deloitte. It was confirmed that a proactive plan would be one of the outputs from the NHS Protect review. The Deloitte analytics tool would help in proactive work. ES queried whether the timetables were appropriate, or needed accelerating.</li> <li>NK queried what learning occurred from previous cases. MW explained some of the ways this is done.</li> <li>ES confirmed the Committee would like some proactive work accelerated, even if that requires additional resource.</li> </ul>
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**Action AC-2013-08: PB to propose a proactive work programme, and expedite to delivery**

**7. Governance**

	<p><b><i>Review of Risk Management</i></b></p> <ul style="list-style-type: none"> <li>RM presented the paper, noting existing documents were more focused on transition and a small organisation.</li> <li>The papers have been discussed at ETM, and comments need incorporating into updated versions.</li> <li>NK noted the papers felt very policy driven, but didn't deal with operationalizing it day to day. ES noted a consistent framework was important, but a report back on use in operation will be essential.</li> <li>CW highlighted the statement where risks of other organisations were excluded, which does not appear appropriate in an integrated system where working with partners and joint risks are going to occur daily.</li> <li>DN noted where risk management falls down is having a static document that drives risk reporting as opposed to a living document that drives risk management.</li> </ul>
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**Action AC-2013-09: Report back on the finalisation of the Risk Strategy and Policy**

**and operationalization to be provided to the June Committee (Bill McCarthy)**

***Review of Board Assurance Framework***

- ES noted the paper hardly moved things forward.
- PB explained it had been intended to present a draft updated BAF. Due to lack of access to National Directors this work had not been completed, or developed as far as would have been liked.
- The Committee agreed not to consider the paper that had been circulated.

**Action AC-2013-10: A fully updated BAF to be provided to the June Committee, following consideration by ETM (Bill McCarthy)**

***Update on Finance Work Streams***

- PB presented the paper, noting this build on work up to 'go-live'. The paper was purely self-assessed, compared to previous papers which had been assured by Deloitte's.
- Four areas are still rated as red, which PB talked through in more detail. PB also talked through the amber rated areas briefly.
- ES congratulated PB, SP and the teams in getting through what looked at one point like being a significant issue. It was equally recognised that there was more to do and a further update would be provided by management at the June meeting.

**Action AC-2013-11: A further update was requested to the June meeting (PB)**

***DH Delegation Arrangements***

- PB noted CSUs have now been excluded from Cabinet Office controls, though formal confirmation is still awaited.

***Review of Inter-relationships with the Work of Other Committees***

- NK queried whether the wording focussed enough on outcomes, and whether clinical complaints should be referred to.

**Action AC-2013-12: JS to revisit the Terms of Reference with Medical Directorate to ensure they cover all required areas**

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<b>8. Standing Items</b>	
	<p><b>SFI 4.1.1.4: Non-compliance with Standing Orders</b></p> <ul style="list-style-type: none"> <li>No items were reported.</li> </ul>
	<p><b>SFI 1.2.1: Non-compliance with Standing Financial Instructions</b></p> <ul style="list-style-type: none"> <li>No items were reported.</li> </ul>
	<p><b>SO 5.14.4: Review of Decision(s) to Suspend Standing Orders</b></p> <ul style="list-style-type: none"> <li>No instances of Standing Orders being suspended had occurred since the last meeting.</li> </ul>
	<p><b>SFI 11.3.4: Waivers of Formal Tendering Processes</b></p> <ul style="list-style-type: none"> <li>No items were reported.</li> </ul>
	<p><b>SFI: 17.2.9: Losses &amp; Special Payments</b></p> <ul style="list-style-type: none"> <li>No items were reported.</li> </ul>
<b>9. Committee Matters</b>	
	<p><b>Updated Terms of Reference</b></p> <ul style="list-style-type: none"> <li>The Updated Committee Terms of Reference were NOTED by the Committee.</li> </ul>
	<p><b>Review of Forward Work Programme</b></p> <ul style="list-style-type: none"> <li>CW noted the need to add Information Assurance Management.</li> <li>ES suggested taking a Government Department Governance Statement and reviewing against NHS CB's Statement for completeness of coverage.</li> <li>A number of timing changes were proposed.</li> </ul>
<p><b>Action AC-2013-13: Comparison of the Governance Statement to a large Government Department to identify gaps should be undertaken (SF)</b></p> <p><b>Action AC-2013-14: SF to propose dates for the remainder of 2014</b></p>	
<b>10. Matters the Meeting wishes to Specifically Draw to the Attention of the Board</b>	
	<ul style="list-style-type: none"> <li>Counter fraud;</li> <li>Transition status update;</li> </ul>

- Legacy issues with the Department of Health;
- Establishment of “hit list” of internal audit areas;
- Importance of operational focus on establishing the BAF and risk matrices;  
and,
- Importance of the operation of the Quality & Clinical Risk Committee.

## Annex B

### NHS England - Head of Internal Audit Issues list

June 2013

Observation	Owner	Agreed Action	Deadline
<b>1. Complaints</b>			
<p>West Yorkshire Audit Consortium (WYAC) issued an internal audit report which evaluated the Complaints process in May 2013 with a Limited Assurance<sup>1</sup> opinion. The reasons main reasons for this were:</p> <ul style="list-style-type: none"> <li>Lack of overall policy and supporting procedures;</li> <li>Issues identified relating to capacity; and,</li> <li>Lack of clarity regarding responsibility for legacy complaints.</li> </ul>	Bill McCarthy	<ul style="list-style-type: none"> <li>A series of management actions were agreed to address the observations with the latest implementations dates being in August 2013.</li> </ul>	<ul style="list-style-type: none"> <li>August 2013</li> </ul>
		<ul style="list-style-type: none"> <li>Internal audit have a follow-up review on their audit plan scheduled for October 2013 to confirm the implementation of the agreed actions</li> </ul>	<ul style="list-style-type: none"> <li>October 2013</li> </ul>
<b>2. Payroll</b>			
<p>Payroll was rated as a red risk on the finance transitional work stream in March and has remained at an Amber rating since this date, with a number of the individual activities rated red.</p> <p>In addition, WYAC have undertaken a number of pieces of work with respect to payroll:</p> <ul style="list-style-type: none"> <li>HR pre-employment checks (Limited assurance<sup>1</sup>);</li> <li>HR payroll implementation (core) (Significant assurance<sup>2</sup>); and,</li> </ul>	Jo-Anne Wass	<ul style="list-style-type: none"> <li>A transitional project team has been put in place to address the payroll issues identified</li> </ul>	<ul style="list-style-type: none"> <li></li> </ul>
	Paul Baumann	<ul style="list-style-type: none"> <li>Internal audit have a follow-up review on their audit plan, as part of the recruitment and retention audit, to confirm the implementation of the agreed actions from the HR pre-employment checks audit</li> </ul>	<ul style="list-style-type: none"> <li>October 2013</li> </ul>

<sup>1</sup> The system of internal control has weaknesses in design and/or application that put the systems objectives at risk of not being achieved

<sup>2</sup> There is a generally sound system of internal control designed to address the risk that system objectives are not fully achieved. However, there are weaknesses in design and / or non-compliance with controls that could put some of the system objectives at risk

Observation	Owner	Agreed Action	Deadline
<ul style="list-style-type: none"> <li>HR payroll implementation (CSUs) (Significant assurance<sup>2</sup>).</li> </ul>			
<b>3. Quality &amp; Clinical Risk Committee</b>			
<p>The Board have approved the establishment of a Quality &amp; Clinical Risk Committee and the terms of reference was presented to the Audit Committee on 13th May 2013 to enable the Committee to determine how the committees would work together.</p> <p>To date the membership of the Quality &amp; Clinical Risk Committee has not been determined and the Committee has not met.</p>	Bruce Keogh	<ul style="list-style-type: none"> <li>Proposals related to the Chair and membership of the Committee agreed by the Board Chair as a matter of urgency (June 2013) so that arrangements can be made for the Committee to become operational as soon as possible</li> </ul>	<ul style="list-style-type: none"> <li>July 2013 to agree members and chair and make arrangements for first meeting</li> <li>First meeting no later than September 2013</li> </ul>
<b>4. VAT on Property</b>			
<p>As all properties have been vested in a non-NHS body and private company then they have a duty to levy VAT on rents and other charges. This would put a significant (£60m) financial pressure into the system.</p>	Paul Baumann	<ul style="list-style-type: none"> <li>This issue currently rests between NHS Property Service, HMRC and the Department of Health to agree a resolution</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing</li> </ul>