

**BOARD PAPER - NHS ENGLAND**

**Title:** Audit Committee Chair's Report

**Clearance:** Chief Financial Officer

**Purpose of paper:**

- Report on the meeting held on 2 December 2013 and approved minutes of the meeting held on 16 September 2013.

**Key issues and recommendations:** None

**Actions required by Board Members:**

- The Board is asked to note the outcome of discussions and next steps from the December Audit committee meeting.

## Report of the Audit Committee

1. The Audit Committee met on 2 December 2013. All members were present (Naguib Kheraj by teleconference).
2. The meeting approved the minutes of the previous meeting, held on 16 September 2013, which are attached for information.
3. The key points from the meeting which the Committee wish to draw to the Board's attention are as follows:

- *CSU Service Auditor Reporting*

Management have recommended that CSUs provide service auditor reports (compliant to recognised auditing standards) to customers, including CCGs, and that the cost should be borne by CSUs. Additionally, it was recommended that CSUs be responsible for determining locally how to recover the cost from customers, as there is a variety of existing agreements on audits costs in place.

There is a need to ensure that CSUs are not inundated with auditors from their CCGs, and the service auditor report approach is a recognised solution that, when done to appropriate standards, can be relied on by external auditors of CCG organisations. This is a key efficiency that can be driven out of using ISFE, and it will give transparency over the governance and operation of controls on behalf of CCGs, to enable them to sign their governance statements.

The Committee endorsed providing service auditor reporting to CSU customers as both setting a consistent quality standard and being system wide value for money. They confirmed the proposal that CSUs should deal with the cost implications in collaboration with CCGs.

- *Counter Fraud*

NHS Protect have been supporting delivery of counter fraud services since 1 April 2013. As part of that support they have undertaken an intelligence led analysis of areas of fraud risks, across NHS England and the wider commissioning system.

The Committee received a Strategic Plan covering the next five years and a Threat Assessment and Response Plan covering the next two years, being the

output from that analysis. Management now need to undertake a prioritisation and budgetary assessment to agree an affordable and appropriate delivery plan. The Committee recommended the appointment of an SRO to lead the delivery of the plan on a day-to-day basis.

The Committee noted, in conversation, that some of the areas of potential fraud are not wholly within the sphere of influence of NHS England (prescription fraud being the most material, where the policy is determined by the Department of Health). The Committee agreed it was important that these areas are identified, the root cause(s) is/are understood and if found in policy the Department of Health are made aware of the quantum of exposure, as well as NHS England's recommendation(s) for mitigation. Whilst there were significant caveats in relation to the estimated quantum of economic crime provided by NHS Protect, it was agreed that the apparent scale of these issues merited the reprioritisation of investment to reduce the main areas of exposure to generate funds for additional health services.

- *External Audit Planning Report*

The NAO presented their Audit Planning Report which highlighted the four key risks from the NAO's perspective and their proposed audit approach.

- *Legacy Balances*

Management updated the Committee on the current position on, and proposals for, the approach to handling legacy balances. NHS England has now commissioned work from PwC to support the process, following on from the work they have undertaken for the Department of Health.

The position continues to change, and a verbal update will be provided at the Board meeting.

The Committee noted the current position is unsatisfactory, partly because this had been anticipated as a challenging area and that the NAO had foreshadowed these concerns. The process for determining accurate balances and supporting evidence had not worked effectively and efforts were now being made to rectify the supply of information to NHS England so as to provide the CCGs and NHS England with reliable and complete opening balances. Staff are already fully committed to delivering 2013-14 financial processing and internal financial

controls, and therefore the sourcing of external resource to support the process was now essential.

- *2013-14 Governance Statement*

The Committee received a first draft of the governance statement for 2013-14. Comment and feedback was provided. It was noted the statement also needs aligning with guidance being issued to CCGs, for consistency. Updated drafts will be presented to each subsequent Committee meeting, until the final approval of the accounts by the Board in summer 2014.

It was noted that the final governance statement will need to cover not just NHS England, but also the consolidated system. This will rely on the consistency of governance statements provided by CCGs, for which guidance is being provided in the CCG Annual Reporting Manual. It was also recognised that NHS England was a new organisation and that the Governance statement would need to reflect that in terms of the relative maturity of its internal systems and controls.

The NAO noted this was the first governance statement they had seen this year, which was good evidence of the early focus but there was still a lot of work to do to reflect the actual controls in place during the year.

- *Non-compliance with Standing Financial Instructions*

A report was received detailing a breach of standing financial instructions by West & South Yorkshire & Bassetlaw CSU.

CSUs were told by the BDU, following the September 2013 Audit Committee, that updated standing financial instructions had been approved and therefore a £10k de minimis now applied to procurements, below which quotes were not required. Updated standing financial instructions were not approved under Chair's Action until November 2013, and therefore the CSU had inadvertently breached standing financial instructions by applying the de minimis early.

The report was noted by the Committee, and it was agreed that the circumstances did not merit further action with regard to this case.

A review of all CSUs is to occur before the next Audit Committee to determine whether any others have also unintentionally breached standing financial instructions in this regard.

4. The Committee met privately with representatives of the external auditors, internal auditors and NHS Protect after the meeting, without management present. No matters need to be brought to the Board's attention from this private meeting
5. 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 the remainder of the financial year and into 2014-15 for management and our assurance providers.

**Ed Smith**

**Audit Committee Chair**

**2 December 2013**

## NHS COMMISSIONING BOARD AUDIT COMMITTEE

### Minutes of the meeting held on 16 September 2013

---

**Present:**

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

---

**In Attendance:**

Paul Baumann	Chief Financial Officer	PB
Bill McCarthy	National Director: Policy	BM
Sheenagh Powell	Director of Financial Control	SP
Stephen Fell	Head of Assurance & Procurement (Secretariat)	SF
Richard Lawton	Head of Financial Accounting & Services	RL
Jon Schick	Head of Governance & Board Secretary	JS
David Noon	Deloitte LLP	DN
Morag Childs	Deloitte LLP	MC
Colin Wilcox	National Audit Office	CW
Emma Townsend	National Audit Office	ET
Martin Wiles	NHS Protect	MW
Rebecca Cooper	NHS Protect	RC

---

**1. Welcome & Introductions**

- ES confirmed all in attendance knew each other.
- ES congratulated management on the quality of the papers being presented.
- NK requested cleared summaries on, particularly, policy papers.

---

***Apologies for Absence***

- All members were present.
-

---

### ***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 17 June 2013 Minutes***

- The minutes of the meeting held on 17 June 2013 were AGREED as an accurate record.
- 

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

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

### ***Action Log***

- The action log was NOTED by the Committee.
- 

### ***Matters Arising Not Covered on the Agenda***

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

## **3. Internal Audit**

### ***Internal Audit Status Report***

- DN presented the report, noting current progress and a high level of engagement from management in what is a very busy period. DN noted a high level of take up of Deloitte Online. ES requested Committee members be given access.

**Action AC-2013-26: Audit Committee members to be given access to Deloitte Online (SF/MC)**

- DN reported three audits are on hold and two new audits are being proposed. It was agreed to discuss the proposed technology fund audit when considering the later agenda item.
- RL and MC explained the ledger consolidation audit is considering the merger of CSU ledgers, rather than wider consolidation. The additional audit was APPROVED by the Committee.
- RL explained the deferral of the fixed assets and receipts audits was partly to make way for the acceleration of payments audit work, which is a larger piece of work, and to allow audits to occur on more steady state processes.

- ES noted he wanted assurance that basic controls are in place, and un-cleared items are not building up on control and suspense accounts. MC confirmed this was being covered in the general ledger audit.
- It was confirmed that work is concentrating on core areas and a number of reports would be issued before the next meeting.
- DN explained the approach being taken on issuing opinions, which is directional rather than final. This reflects the fact that a lot of work is still on-going to develop and embed processes. DN confirmed that the final opinion at the end of the year, including the overall Head of Internal Audit Opinion, would reflect the control environment for the full year, not just at the end of the year.
- CW noted that the absence of full in year assurance would need to be reflected in the Governance Statement, either in terms of specific assurance gaps observed or hopefully more generically in terms of acknowledging an evolving control environment.
- It was requested that management responses and responsible individuals should be included in the summary of each report.

**Action AC-2013-27: Deloitte Progress Report to include management responses and responsible individual in future (DN/MC)**

- It was AGREED that the Committee should receive No Assurance reports at the point of issue, via Deloitte Online.
- RL talked to the issues raised in the banking report. ES reiterated that the access to online banking is fundamental and needs fixing.
- PB noted a distinction needs to be made between fundamental controls that are not in place, versus enhancement to the systems that are being introduced and not yet achieved in full.
- BM queried why the scheme of delegation report was limited assurance overall. MC confirmed it was the cumulative effect of a number of level 2 recommendations, rather than as a result of one particular recommendation.
- DN noted the required days for CSUs is higher than currently budgeted. In addition the wider piece of assurance over CSUs can be delivered more efficiently for the overall health economy by Deloitte delivering full Service Auditor



Reports. Some CSUs are commissioning reporting locally, but there is a general acceptance that a central approach is preferable.

- PB noted there is a debate to be had as to whether CCGs have paid for this in their contract prices, versus where they think they have paid via their current contract but it wasn't built into the contract price.
- SP explained it is proposed to get a group of CCG Audit Committee Chairs together (as a sub-group of the Commissioning Assembly) to address some of these types of governance issues. This will be followed by an Audit Committee Chairs session for all CCGs in January 2014.
- The Committee CONFIRMED its commitment to providing Service Auditor Reporting as the mechanism of providing assurance to CCGs, rather than local provision.
- ES noted he was heartened to see the whistleblowing arrangements had been set up, and would be interested to see some reporting at the next meeting.
- The report was NOTED by the Committee.

---

#### ***Deloitte Scope of Services***

- MC presented the paper, noting the paper sets out a process flow and service categories.
- NK queried whether this covered just NHS England or the wider system. DN confirmed it was talking about NHS England only, but he sees all health conflicts so these are considered.
- The paper was APPROVED by the Committee.

---

#### ***Internal Audit Ways of Working***

- MC presented the paper, highlighting the charter specifically.
  - CW confirmed he was happy with the document from an external audit point of view.
  - NK queried how follow up will occur and be reported on. DN talked through the proposed process, including the control on changes to implementation dates.
  - The paper, including Internal Audit Charter, was APPROVED by the Committee.
-

### **Assurance over Health Information Services**

- MC presented the paper, talking through each item.
- PB noted he is trying to arrange a meeting to discuss the issues around the ISCG and whether NHS England takes direct control of the Committee.
- NK noted the technology fund is probably the easiest area to address. ES noted funding has been increased in the last few weeks from £250m to £500m. It was AGREED that the proposed internal audit go ahead without delay.
- CW explained HSCIC use the DH shared service internal audit, but by sub-contracting all work to PWC. CW noted Service Auditor Reporting from HSCIC should cover the assurance NHS England requires, but could not confirm this had been commissioned and suggested NHS England formally request it of HSCIC.
- ES noted in his view if the Chair of the ISCG is commissioned by the Department of Health, then he should be accountable to them, not to NHS England, for the delivery. Any conflicts with his role at NHS England should be managed by the Department. This is being addressed by the Chair in conversation with the Department Permanent Secretary.

### **Action AC-2013-28: Governance arrangements over the Chair of the ISCG role to be clarified with the Department of Health (ES)**

- CW flagged work the NAO were undertaking on the Department's digital governance and the Department's group accounting policies for IT non-current assets. Initial findings indicated some inconsistency of treatment or a lack of common group understanding, which created inherent uncertainty when accounting for non-current assets. This impacted on the existing non-current assets, but moreover would also impact on those future programmes previously discussed as 'owned' by NHS England.
- The paper was NOTED by the Committee.

---

## **4. Counter Fraud 2013-14**

### **Anti-crime Work Plan Update**

- MW presented the update, noting a lot of work has been delivered since the last Committee.

- Discussion occurred around the outstanding NFI matches, and an explanation provided of what NFI is trying to achieve. MW confirmed the intention that NHS Protect act as a filter, and point work at the relevant inheritor body. PB noted funding for this should be part of the legacy discussions, not a call on 2013-14 budgets.
- The approach proposed was APPROVED, subject to funding discussions happening with the Department of Health.

**Action AC-2013-29: Clarification on funding for the investigation of legacy NFI matches to be sought from the Department of Health (PB)**

- NK queried whether the £216m prescription loss was a real number or theoretical. MW confirmed it is a statistically valid extrapolation. CW confirmed the methodology used was valid.
- CW noted the policy is driven by the Department of Health, but the loss is borne by NHS England. MW confirmed discussions are on-going between NHS Protect, NHS England and the Department of Health on how to address the issue.
- CW noted this has historically been an issue for the Department of Health governance statement and declaration of losses in its accounts. This will now transfer to NHS England. The Department has tended to disclose narratively in their accounts in support of a paragraph in their governance statement.
- PB proposed a briefing on next steps be brought back to the next meeting.

**Action AC-2013-30: Briefing paper on the prescription report and next actions to be presented to the next meeting (MW)**

- The update was NOTED by the Committee.

---

***Standards & Qualitative Assessment for Commissioners: Fraud, Bribery & Corruption***

- MW presented the document, noting the paper follows the standards used in the work plan and providers, with some updating.
  - The document was APPROVED by the Committee.
-

**Standards & Qualitative Assessment for Commissioners: Security  
Management**

- MW presented the document, noting this is the other part of NHS Protect's remit and is radically different to the provider set, due to the different landscape CCGs work in compared to providers.
- The proposal is therefore to consult on this with CCGs and NHS England areas.
- The document and proposed approach was APPROVED by the Committee.

---

**5. External Audit & Financial Reporting**

**NAO Audit Planning Memorandum 2013-14**

- CW presented the paper, noting the full planning memorandum is not available and what was being presented were the proposed significant risks for the audit.
- These are deliberately short, as changes to Auditing Standards may require identified planning risks to be reported on publicly by auditors when issuing their opinion.
- CW talked through the six areas of emphasis noted at 3.1 in the covering paper confirming a lot of progress had been made, but a lot more is required.
- PB reiterated that management fully understood the NAO position, and was not complacent on the challenge ahead but equally in some areas NHS England was striving to deliver far more than had ever been done in the past.
- SP talked through the detailed management responses.
- Discussion occurred around the property issue. ES agreed he and CW would raise this at the Department of Health Audit Committee on Wednesday.

**Action AC-2013-31: Property issues to be raised at the Department of Health  
Audit Committee (ES/CW)**

- ES requested the Committee be included in the consultation circulation for the CCG Annual Reporting Manual.

**Action AC-2013-32: Committee members to be included in the CCG Annual  
Reporting Manual consultation process (SF)**

- The paper was NOTED by the Committee.

### ***Audit Timetable 2013-14***

- SP noted a paper had been prepared, but the Department of Health have now engaged in the process and started their planning. There will be consequently be changes to the original draft NHS England timetable.
  - It was AGREED to circulate the updated timetable, once finalised.
- 

### ***Legacy Balances Update***

- SP explained a timetable had been agreed, and internal audit have been commissioned to review the process, probably in November 2013, with NAO review in December 2013.
  - RL noted NHS England had engaged early with the Department of Health and influenced the process that is now being delivered, including using a dedicated ledger to control inherited balances.
  - ES noted this is a change in stance for NHS England driven by a change in stance by the Department of Health. This has provided NHS England with substantial work a lot later in the year than would have been ideal, and it is important that this is recognised by the Department of Health in both funding the cost of the work and in resolution of disputes.
  - The approach was NOTED by the Committee.
- 

## **6. Governance**

### ***Update on Risk Strategy & Policy***

- BM presented the papers, noting they had been further developed from those seen by the Committee previously.
- The Executive Risk Management Committee role and responsibilities has been refined and developed, including making it a Committee comprised of National and Regional Directors. As a consequence a Risk Management Group had been created, that would be attended by VSM Directors (the original concept for the Executive Risk Management Committee).
- ES requested DN's view on the framework, given his experience in this area.
- DN noted the framework was a good balance. It is unlikely to remain static over time, but will change as it is used in earnest. This is to be expected.

- CW confirmed he was of a similar view.
- ES noted the Quality & Clinical Risk Committee is now up and has met for the first time. BM noted discussion at their meeting on terms of reference will probably result in changes, which need reflecting in the policy.
- PB queried an on-going debate on whether risk impact can be mitigated. The Committee members expressed a view that in certain circumstances impact can be mitigated, which is at odds with the view of internal audit.
- The papers were NOTED by the Committee.

---

#### ***Review of Board Assurance Framework***

- BM presented the paper, noting it was presented at the Board the previous week. Two risks have been added, which accord with the Committee discussions.
- BM noted the Executive Risk Management Committee was still in its early days, but felt like a well-functioning committee, that was focussing both on bottom up risks as well as high level risks.
- ES noted the Board should now move to taking a risk in detail at each of its meetings, spending 30-40 minutes interrogating management in detail.

**Action AC-2013-33: In-depth review of individual risks to be built into the Board forward work programme (ES/JS)**

- The paper was NOTED by the Committee.

---

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

- JS noted a Committee handbook had now been produced, which consolidated all terms of reference. Subject to incorporation of final comments this will be issued later in the week.
- ES requested the handbook be circulated to internal audit and the NAO once finalised.

**Action AC-2013-34: Committee handbook to be circulated to Deloitte and the NAO, once finalised (JS)**

### ***Approval of Updated Standing Orders***

- SF presented the paper, noting these represented minor changes resulting from issues found in operation.
- Updated Standing Orders were APPROVED by the Committee, subject to final review by internal audit and NHS Protect and resolution on one matter with BM on Non-executive Members powers, and RECOMMENDED to the Chair for approval under Chair's action.

**Action AC-2013-35: Final review of Updated Standing Orders to be undertaken by Deloitte and NHS Protect (MC/MW)**

**Action AC-2013-36: Approval of Updated Standing Orders under Chair's action to be arranged (JS)**

### ***Approval of Updated Standing Financial Instructions***

- SF presented the paper, noting significant changes were detailed in the covering paper and have been drafted to provide greater clarity in a number of areas.
- Updated Standing Financial Instructions were APPROVED by the Committee, subject to final review by internal audit and NHS Protect, and RECOMMENDED to the Chair for approval under Chair's action.

**Action AC-2013-37: Final review of Updated Standing Financial Instructions to be undertaken by Deloitte and NHS Protect (MC/MW)**

**Action AC-2013-38: Approval of Updated Standing Financial Instructions under Chair's action to be arranged (JS)**

### ***Ratification of CSU Operating Framework (previously approved by the Chief Financial Officer)***

- PB presented the paper, noting this addresses a level two audit recommendation on the scheme of delegation audit. A full review process has been undertaken, which resulted in some changes. This paper is the outcome of that review process.
- The CSU Operating Frameworks were RATIFIED by the Committee.

## 7. Standing Items

### ***SFI 4.1.1.4: Non-compliance with Standing Orders***

- No items were reported.
- 

### ***SFI 1.2.1: Non-compliance with Standing Financial Instructions***

- No items were reported.
- 

### ***SO 5.14.4: Review of Decision(s) to Suspend Standing Orders***

- No instances of Standing Orders being suspended had occurred since the last meeting.
- 

### ***SFI 11.3.4: Waivers of Formal Tendering & Quotations Processes***

- The log of waivers was NOTED by the Committee.
- NK requested clearer descriptions, separate from the supplier, be provided in future.

**Action AC-2013-39: Descriptions of the procurement being undertaken to be separated from the supplier details, in future reports (SF)**

---

### ***SFI: 17.2.9: Losses & Special Payments***

- No items were reported.
- 

## 8. Committee Matters

### ***Review of Forward Work Programme***

- ES requested the Chief Executive attend the December 2013 Audit Committee and a first review of the governance statement occur.
  - PB noted the December 2013 meeting already had a significant agenda, which may cause issues timing wise.
  - The forward work programme was NOTED by the Committee.
- 

## 9. Matters the Meeting wishes to Specifically Draw to the Attention of the Board

- The approval of two new internal audits (CSU ledger consolidation and technology fund)
- The approval of Deloitte Scope of Services, Audit Ways of Working and Internal Audit Charter



- IT Governance, ISCG
  - Prescription Fraud Report, and implications for NHS England's accounts and governance statement
  - NAO audit planning risks
  - Recommendation of Standing Orders
  - Recommendation of Standing Financial Instructions
-