

**BOARD PAPER - NHS ENGLAND**

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

**Clearance:** Audit Committee Chair

**Purpose of paper:**

- Report on the meeting held on 29 April 2014 and approved minutes of the meeting held on 17 February 2014

**Actions required by Board Members:**

- To Note the report
- To Approve the changes to Standing Financial Instructions
- To Approve the changes to the Committee Terms of Reference

## Report of the Audit Committee

1. The Audit Committee met on 29 April 2014. Both members were present. The Committee continues to operate with one member vacancy.
2. The meeting approved the minutes of the previous meeting, held on 17 February 2014, 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:

- *Internal Audit*

Deloitte reported on the progress against the 2013-14 plan, which had seen considerable work completed in the run up to 31 March 2014. Delivery of the 2013-14 plan is now substantially complete.

The Committee considered the draft Head of Internal Audit Opinion which concludes that the frameworks for governance and risk management have been adequate and effective in 2013-14 and that the framework for internal control has been designed and has evolved with the organisation, for the majority of areas, through the 2013-14 financial year. It goes on to say that at 31 March 2014 the internal control system is largely in place although it has not been possible to test operating effectiveness in a number of areas. This will be an important reservation in the opinion about the operation of the internal control system. The Committee considered that this was a fair reflection of the evolution of NHSE in its first year and was unsurprising for an organisation of this scale and complexity and the way in which it came together through the reorganisation.

The draft internal audit plan for 2014-15 was considered, and comments and suggestions made. A final draft is to be presented to the June 2014 meeting for approval.

- *External Audit Progress*

The National Audit Office reported on progress on the audit, which had started slowly but was now moving ahead apace. They also presented their management letter from the interim audit.

The National Audit Office reiterated concern that period 9 was not a full data collection from CCGs and accounts production, which meant some processes would be tested for the first time at year end. The position remains, in their opinion, that pre-recess delivery of audited accounts is going to be challenging.

Management confirmed they were staffed up to deliver year end, including having access to additional resource should it be required, including in CCGs. Progress will be monitored closely in coordination with the NAO and DH with consideration of the implications of timetable slippage on a regular basis

- *2013-14 Annual Report*

The Committee received an update on progress, and the latest draft.

There is still considerable work to be done to complete the process and produce a suitable quality Report. Changes to the process for future years might involve co-ordination by the Board Secretary, as would be more normal practice in other sectors.

A plan is now in place, which will see a draft available to Board colleagues after it is considered by the Executive at their meeting on 2 June 2014.

- *2013-14 Governance Statement*

The Committee received an update on progress since the last meeting, and the latest draft statement.

Some final sections need completing, including the Head of Internal Audit Opinion and Compliance with the UK Corporate Governance Code, both of which were considered at the meeting.

A near final draft should be available to share with Board Colleagues around the date of the May Board meeting. It will be signed by Simon Stevens who has had an exchange of letters for the transition from David Nicholson. It will also be important that the Board considers and approves this alongside the Annual Accounts

- *Non-compliance with Standing Financial Instructions*

Three reports were received on breaches of Standing Financial Instructions.

The first related to the retrospectively approval of waivers of formal tendering and quotations. 27 instances were noted, being just under a quarter of all waivers approved in the period. Work is ongoing with all areas to enforce compliance with Standing Financial Instructions;

The second related to eight CSUs advising of 525 waivers of formal tendering and quotations which had not been approved by the Chief Financial Officer. CSUs have had the requirement to obtain approval by the Chief Financial Officer reinforced to them, and there should be no further breaches; and,

There was one case where a special payment was made prior to approval by the Efficiency Controls Committee. This related to the early termination fee on a lease car. The staff involved have been advised of the correct procedure, should this occur in future.

All three reports were noted by the Committee, and it was agreed to waive disciplinary action in all case.

- *Proposed changes to Standing Financial Instructions*

The Committee reviewed Standing Orders, Standing Financial Instructions and the Scheme of Delegation. No changes are proposed to Standing Orders or the Scheme of Delegation. The Committee reviewed proposed changes to the Standing Financial Instructions, were content with the proposals and agreed they should be commended to the Board for formal approval. The proposed changes are as follows:

- Clarification in a number of areas that CSUs are within the provisions of Standing Financial Instructions;
- Change responsibilities of the National Director: Human Resources to the National Director: Transformation & Corporate Operations;
- Incorporate the requirement for CSU Managing Directors to provide information in support of Service Auditor Reporting, and the authority to sign declarations in support of the Service Auditor Reporting process;
- Budget changes going to Finance & Investment Committee rather than the Chief Executive, for approval;
- Clarified the process for seeking approval to use pre-payment cards in support of personal health budgets;
- Refinement of some SFIs around procurement, in light of experience in operation;
- Re-alignment of purchase order and non-purchase order approval limits (as the ISFE is currently not technically capable of delivering differential limits);
- Clarify the appropriate managers for procurement queries, following the establishment of procurement posts as part of budget setting; and,

- Introduction of a £20,000 de minimus, for losses and special payments, that that Chief Financial Officer can sign off up to, before Finance & Investment Committee approval is required

The Board is asked to APPROVE the proposed changes to Standing Financial Instructions with immediate effect.

- *Committee Self-assessment*

The Committee has undertaken a formal self-assessment of its performance over 2013-14, using the National Audit Office checklist. The outcome of this, and consequent Action Plan will be reported to the Board via the Committee Annual Report.

- *Committee Terms of Reference*

The Committee has reviewed its terms of reference and proposes the following changes:

- The Committee is renamed the:

*Audit & Risk Assurance Committee;*

- The Overview of Duties in the current terms of reference be replaced with:

*The Audit & Risk Assurance Committee will advise the Board and Accounting Officer on:*

- *The strategic processes for risk, control and governance and the Governance Statement;*
- *The accounting policies, the accounts, and the annual report of NHS England, including the process for review of the accounts prior to submission for audit, levels of error identified, and management's letter of representation to the external auditors;*
- *The planned activity and results of both internal and external audit;*
- *Adequacy of management response to issues identified by audit activity, including external audit's management letter;*
- *Assurances relating to the management of risk and corporate governance requirements for NHS England;*
- *Proposals for tendering for Internal Audit services or for purchase of non-audit services from contractors who provide audit services; and,*

- *Anti-fraud policies, whistle-blowing processes, and arrangements for special investigations.*

*The Audit & Risk Assurance Committee will also periodically review its own effectiveness and report the results of that review to the Board.*

*Note: NHS England, and thus the Committee, fulfils a dual role with regard to the activities of NHS England itself and its oversight of the wider NHS commissioning system. While the governance of individual CCGs is a matter for their respective Boards and Audit Committees, the NHS England Audit Committee will seek assurance that NHS England's oversight and management of the commissioning system is effective in securing delivery of the overall NHS strategy and in eliminating or mitigating strategic, financial and operational risks.*

- In-line with HM Treasury guidance, the Committee have the following authority added to its Purpose statement:

*The Committee is authorised to co-opt additional members for a period not exceeding a year to provide specialist skills, knowledge and experience.*

The Board is asked to APPROVE the proposed changes to the Committee's Terms of Reference with immediate effect.

4. 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 for the year ahead. Equally the year end timetable for the production of the annual Report and Accounts is very challenging.

**Ed Smith**  
**Audit Committee Chair**  
**29 April 2014**

## NHS COMMISSIONING BOARD AUDIT COMMITTEE

### Minutes of the meeting held on 17 February 2014

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#### Present:

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

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#### In Attendance:

David Nicholson	Chief Executive (from item 7)	DNi
Paul Baumann	Chief Financial Officer	PB
Bill McCarthy	National Director: Policy (from item 3)	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
Andrew Baigent	Director Group Financial Management, Department of Health	AB
David Noon	Deloitte LLP	DNNo
Morag Childs	Deloitte LLP	MC
Colin Wilcox	National Audit Office	CW
Rebecca Cooper	NHS Protect (to item 6)	RC

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#### Apologies:

Martin Wiles	NHS Protect	MW
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#### 1. Welcome & Introductions

- ES noted Naguib Kheraj had resigned from the Board, and therefore the Committee was short a member. An additional member is being recruited.
  - ES confirmed all in attendance knew each other.
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#### *Apologies for Absence*

- All members were present.
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#### *Consideration of "Starred" Items*

- ES requested 140217-07 be un-starred.

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

- There were no member declarations of interest in matters on the agenda.
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## 2. Minutes of the Previous Meeting

#### *Meeting of 2 December 2013 Minutes*

- SP noted within the Internal Audit Status Report the commitment is to deliver all priority 1 but only some priority 2 recommendations, by the time of re-audit.
  - Subject to this one change, the minutes of the meeting held on 2 December 2013 were AGREED as an accurate record.
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#### *Chair's Report to the Board*

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

- AC-2013-29: Action transferred to SP for next meeting.
  - AC-2013-33: Covered within the BAF discussion on the agenda.
  - AC-2013-41: SP reported verbally, confirming action is in progress. Supplier verification requires changes to SBS processes which have been in place since the inception of SBS.
  - AC-2013-43: PB confirmed he had Board responsibility for counter fraud. Once a detailed programme of work has been established a decision can be taken on the need for a dedicated SRO.
  - The action log was NOTED by the Committee.
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#### *Matters Arising Not Covered on the Agenda*

- ES noted the CCG Audit Committee Chairs Forum on the previous Friday had highlighted communications issues within CCG lay members and we need to consider how this is addressed whilst balancing the primacy of CCG Executives communicating with their lay members.



- A further session is to be planned for around October 2014.

Action AC-2014-01: SF to look at potential dates for a CCG Audit Committee Chairs Forum in October 2014

- The issue of counter fraud provision within CCGs was highlighted. RC confirmed she was attending the next session on Wednesday 19 February 2014, so would be able to respond to queries raised.
- ES thanked everyone for speaking and for the arrangements for the day.

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### 3. Internal Audit

#### *Internal Audit Status Report*

- DNo presented the report, noting a high volume of activity is underway which has resulted in a number of reports being issued since the last meeting. The work at CSUs has been comprehensive, and has drawn out similar issues as identified at the centre. 458 recommendations across the organisation is a significant number, particularly given the other pressures on all staff.
- ES noted a significant number relate to CSUs, for which local management need to be firmly accountable through the oversight of the NHS England CSU senior managers responsible.
- DNo noted the delay between draft and final CSU reports was unacceptably long, and this would have implications on service auditor reporting if it was repeated. MC noted a number of actions in CSUs were complete by the time the final reports were issued. The BDU are fully engaged with the requirement to deliver on recommendations, and are actively tracking delivery.
- The Committee CONFIRMED it was happy to defer the two internal audits noted in section 1.2.

BM joined the meeting.

- ES highlighted the Technology Fund audit, querying whether this should be highlighted to Tim Kelsey and the Board. AB confirmed this was Department of Health money, accounted for by the Department. Post-IGAR responsibility sits with the Department, with Tim Kelsey reporting direct to the Department. The issue therefore only applies to pre-IGAR responsibility and accountability, which is unclear, although AB indicated that in his view it remained with the Department

of Health for that period. ES agreed to raise this on Thursday 20 February 2014, at the Department Information Management Operations Board.

Action AC-2014-02: ES to raised pre-IGAR responsibility for the technology fund at the Information Management Operations Board

- ES highlighted the travel and expenses report, and the issue of access to the redfern booking system.
- PB confirmed Jo-Ann Wass had responsibility for travel and subsistence, including the redfern contract, but the report clearly identified that contract management and user controls had not been operating robustly.
- ES queried whether a data-mining could occur on the data to identify issues. MC confirmed this occurred as part of the internal audit and highlighted no issues.
- ES noted he expected the control environment in this area, and others, to be tightened as the organisation moves in to year two.
- ES queried who had responsibility for complaints. BM confirmed this fell within his area. Work is ongoing to standardise procedures and practices, however the technology platform will need re-procuring to provide something that is fit for purpose. This would come through the NHS England business plan as a priority and was seen by the Committee as a critical investment.
- The Committee requested an update to its next meeting.

Action AC-2014-03: BM to provide an update on the complaints internal audit at the next meeting

- ES requested PB issue a note to Stephen Moir to reinforce the priority of delivering against the payroll recommendations.

Action AC-2014-04: PB to issue a note to Stephen Moir to reinforce the priority of delivering against the payroll recommendations

- ES queried the themes coming out of area team visits. MC confirmed the themes are broadly in line with those coming from central audits.
- MG highlighted the transition programme approval issue with regard to Surrey & Sussex CSU. MC agreed to come back with details of who had taken responsibility for the comment.

Action AC-2014-05: MC to provide details of who had taken responsibility for the Surrey & Sussex CSU transition programme approval internal audit recommendation

- AB queried whether further redundancy proposals would be coming to GAC, particularly given the proposed changes to Anglia CSU. PB confirmed there would almost certainly be further proposals over time as the number of CSUs is further reduced by consolidation and clearly senior managers may well then be surplus to requirement and under contractual terms.
- MG noted the CSU summary table in the report. PB queried whether the findings would give problems to external auditors. CW confirmed, having spoken with the Audit Commission and local auditors, that most firms were always intending to take a substantive testing approach in year 1, and therefore the control issues being identified would inform their areas of focus but not breadth of work. The issue would be if testing highlighted errors and this caused samples to be expanded, as this would potentially impact the timetable.
- The report was NOTED by the Committee.

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#### 4. Counter Fraud

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

- RC presented the report, noting that access to historic NFI data has now been confirmed. AB highlighted that post Audit Commission abolition access should be easier.

Action AC-2014-06: AB to provide details of NFI data access changes after the Audit Commission is abolished

- SP confirmed the proposed NHS Business Services Authority work on prescription fraud post payment verification will be subject to a detailed business case.
- PB noted as much progress had not been made on the prospective work programme as would have been desirable. Both this and the NHS Business Services Authority business case will cost considerable sums of money, which is not currently funded within budgets (particularly given any investment comes from admin budgets). This is being addressed as part of 2014-15 budget setting.

- ES noted he had a frustration with a system that did not allow investment to generate future savings. He had experienced this in other organisations. AB noted there may be ways the Department can help with making funds available to allow the required investment in prevention and detection.
  - MG queried how publicity of successful recoveries was handled. RC explained the process for advertising successful prosecutions across the NHS.
  - JS highlighted item 3.6 on pre-employment checks. MC confirmed the recruitment and retention internal audit, which covers this area, should be reported to the next meeting.
  - The report was NOTED by the Committee.
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## 5. Standing Items

### *SO 1.5.2: Non-compliance with Standing Orders*

- No items were reported.
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### *SFI 1.2.2: Non-compliance with Standing Financial Instructions*

- SP presented the paper, noting SBS have been requested to make a systems change which would allow the second to be delivered.
- The paper was NOTED by the Committee.
- The Committee RATIFIED the non-compliance with Standing Financial Instructions.
- The Committee APPROVED the proposed courses of action.

The Committee APPROVED the waiving of disciplinary action in both case.

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### *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.
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### *SFI 13.25.5: Waivers of Formal Tendering & Quotations Processes*

- PB presented the paper, explaining the governance process around efficiency controls and waivers.
- Following discussion it was agreed PB would send a letter to all CSUs who have not responded to the request for waivers to date, noting this is a breach of

Standing Financial Instructions which will result in disciplinary action if not complied with.

Action AC-2014-07: PB to write to CSUs formally requesting details of waivers approved locally

- The log of waivers of formal tendering and quotations processes was NOTED by the Committee.

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*SFI: 20.5.2: Losses & Special Payments*

- No items were reported as having occurred since the last meeting.

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## 6. Committee Matters

### *Review of Forward Work Programme*

- An additional meeting to be scheduled in July and the April and June meetings to be rescheduled to fit with the updated year end timetable.
- NAO annual appraisal to be moved back to September 2014.

Action AC-2014-08: SF to update the forward work programme

- The forward work programme was AGREED by the Committee.

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### *Audit Committee Self-assessment*

- SF confirmed workload had precluded the issue of the assessment tool to-date. It was intended this would be issued to members, for consideration at the next meeting.

Action AC-2014-09: SF to issue the Audit Committee self-assessment to members before the next meeting

- The delay was NOTED by the Committee.

RC left the meeting.

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## 7. External Audit & Financial Reporting

### *Update on External Audit Work*

- CW presented the paper, highlighting issues and noting the interim audit is in practice an audit of period 9. Things have moved forward significantly over the last 2 weeks. The process management work commences this week, covering regions, areas and CCGs. The interim management letter should be available

mid-March.

- CW raised concern that month 9 was not a full collection of all non-ISFE data, and therefore year end would be the first run through of some processes, particularly consolidating all data and inserting it into accounts formats.

DN joined the meeting.

- SP confirmed the department is staffing up to deliver year end, including using a project management approach and a senior member of staff to co-ordinate the process as a whole.
- RL talked through some of the detail supporting the month 9 processes and preparations for year end.

ES welcomed DN to the meeting, reiterating his view that it is good practice for the Chief Executive to attend the Audit Committee periodically and reflecting on the work of the Committee and the risk environment.

DN noted the transition the organisation has gone through, moving from an organisation of 100 staff to one of 6,500 overnight, effectively creating not just a new organisation but also a new industry.

ES raised the issue of signing the Annual Report & Accounts and governance statement. AB confirmed that signing is for the Accounting Officer at the date of signature. Where a change of Accounting Officer occurs formal assurance should be given from the outgoing to incoming Accounting Officer. This process needs to be formalised, and could use the Audit Committee as part of the process. The easiest would be for DN to issue a letter of assurance (following the governance statement format) to the incoming Chief Executive. ES indicated his preference would be a fully worked up governance statement. CW indicated this would ideally include full statutory accounts, challenge as that would be. The assurance letter would need to detail the outstanding areas of assurance, as well as providing positive assurance.

Discussion occurred around the need to get something signed on 31 March 2014, versus a later date. AB confirmed it wouldn't be a problem to sign something later, other than losing the ability to compel what would then be a non-employee to sign something.

ES reiterated that he would like to see a draft before DN signs it.

AB highlighted that it was important not to get tied up in process, versus the fundamentals of one Accounting Officer handing over to the next Accounting Officer.

Action AC-2014-10: DN to sign a letter of assurance to the incoming Accounting Officer, covering the 2013-14 financial year

- It was confirmed the intention was not to produce full statutory accounts with all period 9 numbers completed, but to stop at the ALB return to the Department (which is largely statutory format).
- AB queried whether the resourcing plans fully reflected the potential resource required around the agreement of balance process. ES requested PB produce a briefing to members to confirm this.

Action AC-2014-11: PB to produce a briefing on the resources being put in place to manage the year end and particularly the agreement of balances processes

- The update was NOTED by the Committee.

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#### *Update on Accounts Timetable 2013-14*

- SP presented the paper, noting most of the content had been covered at the CCG Audit Committee Chairs Forum on Friday. A telling point from the Forum was the number of CCGs with new Chief Financial Officers.
- DN noted nothing has been communicated to Accountable Officers, and this probably needs addressing, as significant numbers of them will be new.

Action AC-2014-12: DN to write to all CCG Accountable Officers regarding their responsibilities with regards to the year end process

- AB queried whether the laying process had been fully investigated, as accounts do get delayed at times to lay on particular days, or in particular batches. Close liaison with the Department will be required. SF confirmed the team were liaising with DH and relevant staff in the House.
  - The update was NOTED by the Committee.
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#### *Update on Legacy Balances*

- SP presented the paper, noting the amount of work that is ongoing. The process will continue after the end of the financial year, to ensure balances are robust and auditable. Returns are still missing from three organisations.
- PB talked through the current position with regards to the impact on NHS England results, which is still a moving position but getting firmer.
- The update was NOTED by the Committee.

#### *Draft Accounting Policies*

- ES noted policies should be as focussed as possible, removing items that are not truly required.
- The paper was NOTED by the Committee.

#### *Update on 2013-14 Governance Statement*

- ES confirmed the requirement for a process, project plan and consultation and sign off process.

Action AC-2014-13: SF to produce a project plan for the production of the governance statement

- The paper was NOTED by the Committee.

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## 8. Governance

#### *Review of Board Assurance Framework & External Assurance*

- BM presented the paper, noting this is seen at the Board.
- DN noted the presentation was not adjusted for public consumption, and had generally not caused the public outcry some had predicted.
- The paper was NOTED by the Committee.

#### *Proposed New Risks & Board Assurance framework for 2014-15*

- BM presented the paper, noting the development based on the 2013-14 BAF. The papers and approach are viewed as being comprehensive, but internal audit has challenged whether the Board has articulated its risk appetite.
- ES noted this is a significant Board Development Session, and the risk appetite



will be different in different areas. AB confirmed the Department had been through the same discussion about six months ago and reached the same conclusion.

Action AC-2014-14: JS to add a discussion on risk appetite to the Board  
Development Agenda

- The update was NOTED by the Committee.

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

- The Complaints internal audit report to be taken to the Private Board session in the first instance
  - The issue of lack of budgets for counter fraud work, particularly the ability to 'invest to save' using programme money
  - The reported instance of non-compliance with Standing Financial Instructions
  - Current progress on the external audit
  - Current progress on legacy balances
  - Progress on drafting the 2013-14 Governance Statement
-