

BOARD PAPER - NHS ENGLAND

Title: Audit & Risk Assurance Committee Chair's Report

From: Audit & Risk Assurance Committee Chair

Purpose of paper:

- Report on the meeting held on 27 February 2015 and approved minutes of the meeting held on 15 December 2014

The Board is invited to:

- Note the report
- Approve the changes to Standing Financial Instructions

Report of the Audit & Risk Assurance Committee

1. The Audit & Risk Assurance Committee met on 27 February 2015. All three members were present.
2. The meeting approved the minutes of the previous meeting, held on 15 December 2014, which are attached for information.
3. The key points from the meeting which the Committee wishes to draw to the Board's attention are as follows:

- *Risk Management*

The Committee continued its previous discussion on opportunities to strengthen risk management processes within NHS England, using as a case study the emergence of risks in relation to tariff which had not previously been specifically cited in the Board-level assurance framework. In addition to emphasising the importance of implementing the agreed actions arising from the recent Internal Audit report on risk management, the Committee supported the view that the organisation should have a dedicated Chief Risk Officer, who could bring additional focus and expertise to risk identification and management processes.

- *Risks relating to Potential Conflicts of Interest for CCG Audit Committee Chairs*

The Committee discussed the issue of CCG Audit Committee Chairs chairing the CCG committees to be set up for Primary Care co-commissioning purposes. Members concluded that the requirement for the Audit Committee Chair to certify the management of conflicts of interest, including those relating to co-commissioning, was incompatible with chairing a committee at which such issues needed to be managed.

Guidance on this issue has since been issued to CCGs. This matter, which was a key focus for discussion at two recent workshops with CCG Chairs, highlights a wider challenge for some CCGs in terms of lay member coverage of key governance roles.

- *Outstanding Internal Audit Recommendations*

The level of overdue internal audit recommendations, highlighted in my previous report, has continued to improve significantly – from 13% to 9% - with clear scope in a small number of specific areas for further improvement towards the target set by the Committee of no more than 5%. The Committee commended the management team on the improvement to date but highlighted the

importance of regular review by the Executive Team as a whole of progress and areas requiring focused attention.

- *Changes to Standing Financial Instructions (SFIs) for Approval*

The Committee reviewed a number of proposed changes to SFIs resulting from the Organisational Alignment & Change Programme. These reflected new nomenclatures (e.g. Directors of Commissioning Operations) and the extension of existing regional delegated financial limits to the new regional leadership roles within specialised commissioning.

These changes do not imply any change to existing policies regarding delegation, and the Committee recommends that the Board gives its formal approval to the proposed changes to SFIs with immediate effect. The proposed new SFI document is available in the Reading Room on Boardpad.

4. In summary, the required Audit & Risk Assurance 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 remainder of 2014-15 and for 2015-16 when the Committee expect further improvements to the overall control environment.
5. I am happy to discuss the content of this report and any other issues relating to the Audit & Risk Assurance Committee's work.

Ed Smith

Audit & Risk Assurance Committee Chair

4 March 2015

NATIONAL HEALTH SERVICE COMMISSIONING BOARD

AUDIT & RISK ASSURANCE COMMITTEE

Minutes of the meeting held on 15 December 2014

Present:

Ed Smith	Non-executive Member (Chair)	ES
Noel Gordon	Non-executive Member	NG
David Roberts	Non-executive Member	DR

Apologies:

None

In Attendance:

Paul Baumann	Chief Financial Officer	PB
Karen Wheeler	National Director: Transformation & Corporate Operations	KW
Steve Wilson	Director of Financial Control	SW
David Procter	Senior Finance Manager Assurance (Secretariat)	DP
Richard Lawton	Head of Financial Accounting & Services	RL
Fiona Barr	Head of Governance & Board Secretary	FB
Ian Dodge	Director of Commissioning Strategy (Item 6.1 only)	ID
Jeff Featherstone	Commissioning Outcomes & Incentives Lead (Item 6.1 only)	JF
Victoria Smith	Director of Finance and Assurance – CSU Transition Programme	VS
David Noon	Deloitte LLP	DN
Morag Childs	Deloitte LLP	MC
Colin Wilcox	National Audit Office	CW
Sue Frith	NHS Protect	SF

- **Welcome & Introductions**

ES welcomed FB to her first meeting of the Committee.

6. *Apologies for Absence*

All members were present. ES confirmed that Moira Gibb has now stepped down from this Committee and thanked her for her valuable contributions whilst she was a member.

7. *Consideration of “Starred” Items*

The items starred on the agenda were accepted with no changes requested.

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

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

- **Minutes of the Previous Meeting**

9. *Minutes of the Meeting of 15 September 2014*

The minutes of the meeting held on 15 September 2014 were AGREED as an accurate record.

10. *Chair’s Report to the Board*

The Chair’s report to the Board will be submitted to the Board in January 2015.

11. *Action Log*

On Action 49, ES asked that the Committee be updated on actions set out in the Cabinet Office report on communications.

Action ARAC-2014-53: Tim Kelsey to provide an update on progress on the Cabinet Office Communications report to Committee members

It was agreed that the risk associated with NHS England’s capacity and capability to take forward the Five Year Forward View would be a good area to look at for a Risk Deep Dive at the next meeting.

Action ARAC-2014-54: KW to work with Ian Dodge to provide a Risk Deep Dive on NHS England’s capacity and capability to take forward the Five Year Forward View, at the next meeting

The action log was NOTED by the Committee.

12. *Matters Arising Not Covered on the Agenda*

There were no matters arising not covered on the agenda.

- **Internal Audit**

13. *Internal Audit Update*

DN presented the position on Internal Audit recommendations. The number of overdue outstanding recommendations had reduced from 22% to 13% so progress has been made in some areas but there is still much to do as some areas have been less responsive. The Committee suggested that the target should be to reduce the overdue outstanding percentage to 5% by April 2015 and progress towards that should be seen at the meeting in February. PB and KW will help to ensure responses are received from all Directorates. Effort should be focussed on key areas where the impact of failing to implement recommendations would be most severe.

DN updated on the work on CSU Service Auditor Reporting. It is anticipated that there will be 7 adverse reports on CSUs. VS recognised there is a need to improve whilst acknowledging that many CSUs have been going through organisational change which will be reflected in the reports. Need to be sure that there is sufficient capacity as well as capability and there was concern about the ability of CSUs to improve in this year. VS outlined the measures taken to date and those still being planned including the strengthening of management teams and review visits to each CSU. The Committee acknowledged the work done to implement internal audit actions. CW queried whether there has been any communication to CCGs and to local auditors about the publication of the reports and SW confirmed that this had been clarified at the recent Finance roadshows. ES asked that VS and Deloitte continue to update the Committee on progress on delivering CSU service auditor reports at future meetings.

Action ARAC-2014-55: VS and Deloitte to update future meetings on progress of CSU SARs.

DN updated on Organisational Change and Ownership. He advised that there was a dependency on a small number of people. KW outlined the steps to delivering the organisational change programme acknowledging that there is much to do and it will be a particularly challenging period between January and March as we move through the changes and transition. There was concern that normal business activity would make it difficult to deliver the change programme. Equally it was essential to monitor normal supervisory enterprise controls during such a period of change and DN

undertook to build that into this year's audit plan.

DN updated on Programme and Project Management. The main issues related to governance arrangements and programme documentation. It was noted that project and programme skills would be essential during the period of organisational change and ES offered the support of the NEDs to KW to help with this. ES stated it is essential to put in place a framework for effective programme assurance. It was agreed to have a Risk Deep Dive on major programme delivery at a future meeting.

Action ARAC-2014-56: KW to include a Risk Deep Dive on major programme delivery at a future meeting

DN updated on Risk Management and Governance. He advised that there was a limited assurance internal audit report on risk management where there had been substantial assurance last year. There needs to be a consistent approach to risk management across the whole organisation. There are things that can be done now to achieve a clean opinion by year end. MC explained the reasoning behind the deferral of the NHS Choices internal audit and it was agreed that there was a need for reassurance in this area.

The report was NOTED by the Committee. ES commended Deloitte on the quality of the report.

14. *Review of External Service Auditor Report Terms of Reference*

SW presented the report, reporting work had occurred with internal audit to identify the areas where reports were required. High priority areas had been identified in respect of Property Services and NHS Business Services Authority. CW advised that HSCIC were not intending to renew their assurance over the NHAIS and Open Exeter systems. SW agreed to follow this up urgently.

Action ARAC-2014-57: SW to follow up the provision of assurances on NHAIS and Open Exeter from HSCIC and confirm that they will be provided.

The report was NOTED by the Committee.

- **Counter Fraud**

15. *Progress Report General*

SW provided a verbal update explaining the arrangements with Deloitte to deliver a reactive and proactive counter fraud service. It was important to develop a strong

relationship with NHS Protect so that there is clarity on how they can work alongside Deloitte in delivering the service.

He outlined the ongoing work being undertaken by NHS Business Services Authority on prescription fraud and on dental fraud and on the risk sampling work being developed with the Cabinet Office.

The update was NOTED by the Committee.

16. Counter Fraud Update

MC presented the report, detailing the number of cases which Deloitte had taken over and the cases closed. She explained that the National Investigation Service (NIS) still investigate large complex cases. There is a network of agencies involved in counter fraud work. There was discussion of the cost/benefits of investigation work and clarification was requested on commissioning fraud. MC was asked to circulate a note to members explaining what is meant by commissioning fraud.

Action ARAC-2014-58: MC to circulate a note to members of the Committee providing more details on commissioning fraud.

MC outlined the proactive counter fraud work plan, including support to Cabinet Office risk sampling, the National Fraud Initiative (NFI) and workshops on raising awareness. There was discussion of the phasing of the plan given that work is not planned on some activities rated as major, until future years. It was agreed that a paper was required to explain how assurance would be provided on areas not being covered in 2014-15 and detailing the timing of interventions in each area.

The report was NOTED by the Committee

Action ARAC-2014-59: MC to provide a paper to Committee members explaining how assurance will be provided on fraud risk areas not being covered in 2014-15 and detailing the timing of future interventions in each area.

17. Report on Whistleblowing Arrangements

KW presented the report. There was discussion on the cultural and behavioural aspects of whistleblowing. It was agreed that Stephen Moir should attend the meeting in June 2015 to discuss how whistleblowing is integrated into the culture of the organisation.

Action ARAC-2014-60: Stephen Moir to attend ARAC in June 2015 to discuss whistleblowing.

The report was NOTED by the Committee.

- External Audit & Financial Reporting

18. *Feedback from CCG Audit Committee Chairs*

ES gave a verbal update on the forums which were held in October 2014. They had been well received and forums were planned for 18th and 24th February 2015. There had been discussion on how to ensure CCG Audit Chairs received all the information which they should see.

The update was NOTED by the Committee.

19. *Feedback from Finance Workshops*

SW gave a verbal update on the Finance Workshops which were held in November 2015. They had been attended by around 480 people with a cross section across CCGs and NHS England. The details on year end had been received without any major concerns. ES queried the position on the appointment of CCG auditors in light of the Local Audit and Accountability Act and asked for a paper setting out what CCGs are required to do.

The update was NOTED by the Committee.

Action ARAC-2014-61: SW to provide a paper setting out the position on the future appointment of CCG auditors.

20. *2014-15 Annual Report & Accounts Timetable*

KW presented the paper. She advised that she had been appointed as the National Director lead to coordinate the production of the Annual Report. Updates would be provided at future meetings. ES queried the Annual Governance Statement and asked that a draft be presented to the meeting in February 2015.

Action ARAC-2014-62: KW to provide a draft of the Annual Governance Statement for ARAC in February 2015.

The report was NOTED by the Committee.

21. *NAO Progress Report*

CW presented the paper, advising the Committee that the audit process for 2014-15 should be leaner and so a reduced fee has been proposed. He noted that there is a

need to develop stronger assurance and clearer definitions of accountability across the organisation.

The report was NOTED by the Committee.

22. *NAO Letter of Understanding*

CW advised that the 2013-14 letter of engagement had not been signed. ES advised that the Committee are content to recommend that the Chief Executive signs the letter.

Action ARAC-2014-63: DP to arrange for a copy of the letter of engagement to be provided to the CE's office for signature

The paper was NOTED by the Committee.

- **Governance**

23. *Revised Conflicts of Interest Guidance*

ID and JF joined the meeting for the item.

ID presented the paper, explaining the background to the development of the guidance. He explained that there is a commitment to publish strengthened and updated guidance prior to the end of 2014 which is fundamental to a robust system of control in the new commissioning environment. There has been wide consultation in developing the guidance. There is a need to check half way through the year how the guidance is working in practice and the mechanics of that need to be worked through. ES stated that this guidance is fundamental to the reputation of the organisation. It would be discussed at the next CCG Audit Committee Chairs forums in February 2015. FB would discuss the process for authorisation of any unavoidable conflict of interest with ID.

Action ARAC-2014-64: FB to discuss how to authorise an unavoidable conflict of interest with ID

It is important to get the balance right between setting out a prescriptive set of rules and checks and allowing CCGs freedom to self-administer.

CW advised that the NAO had been consulted but he would need to reserve judgement.

For 2015-16 an assurance/attestation process would be required and SW/PB would lead on developing that.

The guidance was NOTED by the Committee

24. Review of Board Assurance Framework & External Assurance

KW presented the paper noting that this had previously been the Corporate Risk Register and this continues to be work in progress. KW set out a process whereby National Director would provide personal assurance on compliance at Month 9 and for year end. The outcome would be reported to the Committee. There was discussion on the extent to which this could be enforced and people held personally accountable and whether any training was required to support staff. DR noted that communication would be key to make the process work well.

There should be an aim to get the process working properly for 2015-16 and it was suggested that NDs be invited to future meetings to talk through their respective areas of work.

The paper was NOTED by the Committee.

25. Review and Approval of Risk Management Policy

KW presented the paper acknowledging the issues that had been raised in the Internal Audit report on this area. There has been concern as there was not a standard approach in place across the organisation.

DR requested changes to paragraphs 5.1.1 and 5.3. It was suggested that standard templates should be mandated for reporting

NG suggested that those risks should be identified which pose the most critical threat to the organisation. These could be shown as black risks. There should be consideration of splitting reputational risks from business resilience risks. DN and MC would also provide feedback on this

The policy was AGREED by the Committee subject to KW circulating a paper to members advising them of changes to be made to the policy.

Action ARAC-2014-65: KW to circulate a list of changes to be made to the draft risk management policy, to Committee members

26. Review of Standing Orders and Scheme of Delegation

The updated documents were AGREED by the Committee.

27. CSU Operating Frameworks

SW presented the paper. References to the Commissioning Support Committee should be changed. It was suggested that there should be reference to the Conflicts of Interest guidance. Confirmation was requested from Deloitte that they are happy

with the proposal.

The proposal contained in the report was AGREED by the Committee.

Action ARAC-2014-66: Deloitte to confirm that they are happy with the proposal on CSU Operating Frameworks

- Standing Items

28. *SO 1.5.2: Non-compliance with Standing Orders*

No items were reported.

29. *SFI 1.2.2: Non-compliance with Standing Financial Instructions*

PB presented the paper. PB advised that work is going on to reduce the number of instances. The presentation is being reviewed so that the focus will be on issues rather than the detail.

The paper was NOTED by the Committee.

The Committee RATIFIED the non-compliance with Standing Financial Instructions.

30. *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.

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

The paper was NOTED by the Committee.

32. *SFI: 20.5.2: Losses & Special Payments*

The paper was NOTED by the Committee.

- Committee Matters

33. *Forward Work Programme*

The forward work programme was AGREED by the Committee.

34. *Self-assessment Action Plan*

The action plan was NOTED by the Committee.

- Matters the Meeting wishes to Specifically Draw to the Attention of the Board

Continuing limited assurance Internal Audit reports.
