

SHADOW AUDIT COMMITTEE

Minutes of the meeting held Monday 11 February 2013
Room 1 Cantilever House

PRESENT

Ray Warburton	Lay Vice Chair (Chair)
Prof Ami David	Registered Nurse
Dr Suparna Das	Secondary Care Doctor
Dr Faruk Majid	Senior Clinical Director
Diana Robbins	Lay Member

IN ATTENDANCE

Lesley Aitken	Corporate Services Manager (minutes)
Sue Exton	External Audit
Graham Hewett	Head of Integrated Governance
Tony Read	Finance Director
David Stacey	Internal Audit
Martin Wilkinson	Managing Director

APOLOGIES

Bill Bryant	Acting Deputy Director of Finance (CSU)
Richard Chapman	Director of Finance (CSU)

AC13/01 Welcome

Mr Warburton welcomed all to the meeting. All present and in attendance introduced themselves and their role.

The Governing Body members had been requested to review their skills and development needs as part of the KPMG's support to the CCG going forward. Mr Wilkinson and the Head of Organisational Development, Mr Malcolm-Smith, would support the development of skills relevant to the Audit Committee.

Mr Warburton said that the Audit Committee had a direct reporting line to the Governing Body. The Audit Committee would provide the Governing Body with assurance of the effectiveness of the CCGs financial reporting and internal control measures. The Audit Committee would review integrated governance and clinical governance issues through areas such as risk. The Audit Committee should not duplicate matters going to other meetings. In particular, assurance would be drawn from:

Internal Audit

External Audit
Delivery Committee
Risk Management Group

The Audit Committee would need to be confident that financial statements were true and fair and that actions were undertaken to correct any deficiencies.

Internal Audit - Mr Stacey said that their remit was to provide scrutiny and to make sure that other parts of the organisation were working. Internal Audit outputs included a plan which would be risk focussed with prioritised key risks shown. A draft plan would come to the next meeting with the some possible early areas of focus for 2013-14 being; governance arrangements and resolving any authorisation conditions where relevant.

There would a Head of Internal Audit Opinion (HIAO) report at the end of the year, which would inform the CCG's Annual Governance Statement in March/April 2014.

Internal Audit is a tool for management and the Audit Committee give support and to focus on high risk areas and provide assurance.

External Audit – Ms Exton emphasised that she was at the meeting as an External Auditor rather than a representative of Grant Thornton. She said that External Audit was independent of management. They would report to the Governing Body on the accounts in three ways:

1. Accounts – audit on a risk basis
2. Value for Money conclusions; looking at arrangements
3. Regularity of expenditure – spending in accordance with the law.

She outlined the following:

- The Audit Commission would appoint the External Auditor.
- External Audit use Internal Audit to inform the risk assessments.
- The Accountable Officer (Mr Wilkinson) would sign up to preparing the accounts in a proper way.
- The Audit Commission followed the Statement of Responsibilities – Ms Exton would circulate these.

ACTION: Sue Exton

The reports they would bring to the Committee would be;

- The Audit Plan
- A regular update report with outline key issues.
- Audit Opinion
- Annual Audit Letter in September
- Fees – these were set by the Audit Commission

Mr Stacey added that Internal Audit would look at the systems operated by the CSU on the CCG's behalf. Their reports would be RAG rated and would aim to help the CCG and CSU improve their service.

The annual planning process would involve working along side the CCG on local issues. A long list of potential areas to audit would be produced with around ten of these identified as areas to audit.

External Audit looked at the conclusion of Internal Audit's work and would check and test some areas.

There were a definitive set of standard for the work of Internal Audit.

The Committee NOTED the verbal report

AC13/02 Terms of Reference (TOR)

Mr Warburton said that at a joint meeting of the SE London Audit Chair, he had sight of other CCG's TORs, which were similar to the set Lewisham had developed. The only marked difference between the TORs was the membership, with each CCG choosing different compositions.

After discussion the following comments were given, amendments would be made to the TORs where relevant:

- Professor Ami David, the Governing Body Registered Nurse, to be added to the membership. Mr Warburton emphasised that the membership of the Audit Committee had to be right for Lewisham.
- The purpose of the Audit Committee would be broadened to emphasise roles beyond finance.
- The lack of mention of the CSU would be rectified.
- 3.4 – other assurance functions; would include clinical assurance. It was noted that significant quality issues would go to FLAG. The Audit Committee would ensure that FLAG was acting effectively. Internal Audit would audit against the process systems used.
- Internal Audit had contingency days for significant issues.
- The numbering of items needed correcting.
- There needed to be a mention of the Remuneration Committee.
- The Statement of Internal Control was now the Annual Governance Statement.
- There was a repetition of wording in Section 8.
- Quorum rules – this would be 1 lay member plus 2 others. Stress the importance of the attendance of Governing Body members.
- The term Remuneration had been used in error in the Terms of Reference. It should have read 'Audit' Committee.

The Terms of Reference was ADOPTED subject to amendments.

AC13/03 **Frequency and timings of meetings**

The next meeting would be held towards the end of March. Meetings for 2013/14 would tie in with the Governing Body meetings, to be held quarterly with additional meetings if required.

Future meetings would be held;

Early July 2013
Early October
January 2014
End of March
May

A forward planner of meetings and agenda items would be developed and brought to each meeting for revision and updating.

ACTION: Lesley Aitken

AC13/04 **Croydon Lessons Learned**

Mr Wilkinson introduced the report produced by KPMG on the lessons learned from NHS Croydon.

Ms Exton declared an interest as she was an auditor for Croydon in 2011/12.

The report looked at the issues identified by the review into the financial management and corporate governance arrangements at NHS Croydon for the period covering the 2010/11 accounts. It identified that there was a failure of control and scrutiny and a lack of management action.

The comprehensive assurance checklist in the report was acknowledged.

Ms Robbins requested that report writers were aware of jargon. A glossary of terms and abbreviations would be produced for the next meeting.

ACTION: Lesley Aitken

Mr Read confirmed that for the CCG there were four finance staff, three of which were band 8a and above and two were qualified accountants. Mr Read confirmed that he was the only employee of the CCG and that the other three members were employed by the CSU and out placed to the CCG.

A question was raised on what the CCG should be focussing on with a need to ensure that the financial delivery stocktake was fit for purpose. The following was suggested:

1. Assurance of matters within the CCG's control
2. Assurance of matters outside of the CCG's control
3. The priorities for Internal and External Audit – these should be in next year's plans.

It was suggested that the following areas, identified in the Croydon report, could be a focus for internal audit priorities:

1a – Is the Board confident that they, the Audit Committee and the Finance Committee have received sufficient training on their responsibilities, risk assurance practices, constructive challenge and appropriate monitoring of follow up actions etc?

1f – Does the Board assurance framework and risk register capture the appropriate risks, and was the risk register used effectively with a detailed review by the Audit Committee or Governance Committee?

3a – Budgets are agreed with budget holders prior to start of financial year and any adjustments are clearly documented and agreed with budget holders during the course of the year.

Governing Body members agreed to email Mr Warburton with their priorities from the checklist.

ACTION: All Governing Body members of Audit Committee

It would be a requirement that all reports to the Audit Committee should have a covering sheet.

The Committee NOTED the report

AC13/05 Readiness for Statutory Duties

Mr Read presented the report, which was based on the Finance Governance Toolkit for Clinical Commissioning Groups, and had been submitted for authorisation purposes. Further work would be required to comply with the finance toolkit by the end of March 2013.

The response to the toolkit was undertaken by the CCG with the involvement of the CSU. There were still some areas to be completed.

Assurance was required regarding the closing down of the old organisation (PCT) and the opening of the new organisation (CCG) without losing financial control. Internal Audit was working with the CSU for the Audit Committees to say how this would be managed. This would come to the March meeting.

ACTION: Internal Audit

Dr Majid asked what questions the Audit Committee should be asking in order to gain assurance from finance colleagues. It was agreed that if any matter was not clear to the Committee then they should challenge. Mr Wilkinson said that the report was a baseline and needed to be updated for the set up of the CCG. Mr Read added that it showed the

intentions and would need to make sure that Internal and External Audit and the CSU were working well.

Regarding the validity of the data; the Audit Commission had PbR assurance for process and consistency. For Secondary Users Service (SuS) data the CSU can run data checks with Internal Audit. The data was shared with primary care.

It was acknowledged that there wasn't capacity to check every data transition. Internal Audit are finalising looking at claims and performance management at CSU level. Any exceptions would be reported to the Audit Committee.

Dr Majid pointed out that one mechanism of checking was benchmarking and flagging outliers.

The report of PbR assurance programme across SEL would be out the first quarter 2013/14 with a Management Response to be produced.

The updated Readiness for Statutory Duties report would come back to the Audit Committee in March.

ACTION; Martin Wilkinson & Tony Read

The Committee discussed and NOTED the report.

AC13/06 Transition Update

Mr Hewett explained that transition work was focused on three key areas :

1. Transfer of Functions

The PCT still held some functions which would come over on 31 March 2013, though most had now fully transferred. The CCG Governance team was preparing a schedule of functions to be transferred to the CCG. A first draft of this document would be reviewed by the Management Team in February and signed off by the Delivery Committee in March.

2. Policy Development

A review of the CCG's policy requirements was currently underway. Priority policies to be produced included;

- Policy on Policies
- Equalities Framework
- SI Policy
- Safeguarding Policy
- Emergency Planning
- Business Continuity

The policy review would be signed off by the Governing Body in March. Policies would be RAG rated for development. Some, such as HR policies, would move from the PCT to CCG and only required rebranding.

3. Risk Management

The Risk Management arrangements, including the Board Assurance Framework (BAF) and Risk Registers would continue in their current form until 31 March 2013. A Risk Management Team Away Day with senior managers had been scheduled for late February to develop a new Risk Register and Assurance Framework. The new framework would be presented to the Governing Body in April.

The Committee NOTED the transition update and AGREED the proposed process and timetable for completing the governance arrangements for transition.

AC13/07 Auditor's Reports

These were taken earlier in the meeting.

13.07.1 Ms Exton added for External Audit – The HFMA Audit Committee Handbook and Grant Thornton's NHS Governance Review 2013 were tabled for information. It was agreed that she would send around the link to both documents to Committee members. *This was actioned on 15 February.*

13.07.2 Internal Audit – an Internal Audit Progress Report was tabled. This looked at the reviews being undertaken and their status. A technical update was given in the paper which included;

- Model Agreement for collaborative commissioning
- NHS Standard Contract; Draft Technical Guidance
- Audit Arrangements for CCGs - The NHS Commissioning Board has asked that the Audit Commission undertake the appointment of auditors to audit the accounts of all CCGs with effect from 1 April 2013. Grant Thornton had been proposed as External Auditors.

Mr Stacey said that the approach for planning for next year would comprise;

- Reviews on the CSU such as Finance and HR.
- The coverage would depend on the ultimate scope of the NHS Commissioning Board's Internal Audit service and any assurances it would provide over CSU systems.
- A thematic review which would relate to all CCGs, for example Section 75s
- Areas specific to Lewisham, such as TSA

There would be a draft plan for 2013/14 which would be *circulated* for discussion. This would come to the meeting in March.

ACTION: Internal Audit

Legacy outstanding internal audit recommendations had been given to appropriate CCGs to take forward where relevant.

13.07.3 Legacy Fraud cases – there was one case which had been through the court which should not continue past the end of March 2013. The new legacy organisation would take forward fraud and claims.

AC13/08 Consultation on appointment of External Auditor

Ms Exton explained that Grant Thornton had been proposed as the External Auditor, but that Ms Exton would not necessarily be the auditor for Lewisham. The contract would be for four years commencing with the accounts to 31 March 2014. The Committee was asked whether there was any reason, such as existing contracts, that would influence Grant Thornton not being awarded the contract.

Mr Read would look at the fees and report back. These would be compared against the historic fees for PCTs. It was noted that the scale of fees was set by the Audit Commission.

ACTION: Tony Read

Subject to assurance that the Governing Body Declaration of Interest register showed no conflict and the agreement of the fees, the Committee AGREED that they would advise that there was no business reason why Grant Thornton should not be appointed as External Auditor.

Mr Read to draft a response for signature by Mr Wilkinson

ACTION: Tony Read

AC13/09 Cycle of setting, monitoring and closing of accounts

This item had been discussed earlier in the meeting. It was noted that some CCG staff would be involved in the settling of the accounts in May 2013.

AC13/10 Appointment of Internal Audit service

Mr Stacey, the Internal Auditor, left the room for this item.

Mr Read reported that three options for the internal audit service had been discussed at the Governing Body meeting; this was prior to being informed that the NHS Commissioning Board would now be appointing its own service. Mr Read confirmed that currently KPMG co-ordinate the Internal Audit service for Lewisham, along with the London and City Consortium.

Mr Warburton said that on 4 February 2013, the SE London Audit Chairs had met, and wished to explore a competition for internal auditors in the coming weeks. Since then, various diverse views had emerged.

Following discussion, in the interests of continuity, it was agreed that the pragmatic approach would be to continue with KPMG as Head of Internal Audit into 2013/14. But, it was also agreed to hold a competitive process, within six months or so, for a provider across the six SEL CCGs with individual contracts for each CCG.

The Committee AGREED the recommendation.

Mr Read would obtain a clear line from the SEL Chief Financial Officers and would brief Mr Warburton.

Action: Tony Read

AC13/11 Appointment of Counter Fraud Services

Mr Read reported that the Counter Fraud Service would continue as now and would align in future with the confirmed internal audit arrangements.

The Committee AGREED the proposal.

AC13/12 Handover of outstanding issues relating to Lewisham from the Joint PCTs Audit Committee

Mr Warburton said that this, in part, had been discussed earlier in the meeting. A question was asked regarding what was worrying the Joint Audit Committee. Ms Exton said one area was assurance on the transfer schemes and the issues for the receiver organisations. This item would be brought to the next meeting.

ACTION: Tony Read

AC13/13 Mandated guidance on audit processes

Ms Exton would circulate the link to the Public Sector Internal Audit Standards to Audit Committee members.

It was agreed that Ms Robbins would summarise the HFMA Audit Committee Handbook to clarify the Audit Committee member's role. This would come back to the March meeting.

ACTION: Diana Robbins

Dr Majid agreed to summarise the HFMA Accounts Guide for PCTs for which Ms Exton would supply the link.

ACTION: Dr Faruk Majid

The Committee NOTED the mandated Public Sector Internal Audit Standards (PSIAS).

AC13/14 Board Assurance Framework

Mr Wilkinson introduced the item. Currently the BAF was under the auspice of the PCT whilst the CCG was still in shadow form.

Mr Hewett described the present process before the BAF was reported to the Governing Body. Directorate risk registers were produced and reviewed and revised with Directors and lead managers. These were taken to the Risk Management Group for further discussion and updating before being presented at the Governing Body. The clinical register was also taken to FLAG.

The BAF headings, which were used across all NHS organisations, were:

Risk identification – with a risk descriptor
Risk Description – existing controls, assurance (evidence),
Action Plan and Target – Control and Assurance Gap and how to fill them

The BAF and registers would be developed using the corporate objectives.

Though all risks shown are Lewisham-specific, there was a need to articulate the risk appetite. Mr Hewett put forward the following:

- Do we show too much on the register?, need to focus on key risks
- On the heat map, risks of 12 were to be isolated on an additional page – which would enable further detail.
- What do we mean by risk?

The register shows that risk was the business of the CCG which then impacted on the health needs of the population of Lewisham.

There were three areas to a risk:

1. Hazard
2. Cause and outcome
3. Consequence

It was acknowledged that risk appetite could change with difference risks and impact. Some members of the Committee said that the notion of “risk appetite” did not sit well with the prime business of the CCG – health outcomes for the local population. Staff of the CCG were asked to reflect on this point.

It was put forward that the Audit Committee should focus on that the controls put in place were working as described in the assurance column. It was planned that this column would show more outcome measures.

The Organisational Development plan would cover risk.

It was agreed to take the top 3-4 high risk areas, which would be put forward by the Management Team, and benchmark these against other CCGs. The results would go to

Lewisham Clinical Commissioning Group

the Integrated Governance Committee and to the joint meeting of the Audit Chair's or Chief Financial Officers meeting to decide the best course of action to take. This would enable a collaborative approach to risk management.

ACTION: Tony Read

It was recommended that Mr Hewett give an explanation on the process for the BAF and Risk Registers to the Governing Body.

ACTION: Graham Hewett

The Committee REVIEWED the Board Assurance Framework

AC13/15 Any other business

There was no other business items at this meeting.

AC13/16 Date of next meeting

The next meeting would be held at the end of March. *Subsequent note – the next meeting would be held on 18 March*

Minute Ref	Action	Responsible Person	Timescale	Status/Comments
Feb 2013				
13/01	The Statement of Responsibilities to be circulated.	Sue Exton		Circulated.
13/03	A glossary of terms and abbreviations to be included with meeting papers	Lesley Aitken	March meeting	
13/04	Croydon lessons learned – to email Mr Warburton with their priorities from the checklist	Governing Body Audit Committee members	For March meeting	
13/05	Regarding closing down of the PCT and opening of CCG – IA was working with the CSU for the Joint Audit Committees to say how this would be managed. A report to come back to the Committee.	Internal Audit	March meeting	
13/05	The updates Readiness for Statutory Duties report would come back to the Committee	Martin Wilkinson/Tony Read	March meeting	
13/07	Draft Internal Audit Plan for 2012/14 to be circulated for discussion.	Internal Audit		
13/08	A response to the Consultation on appointment of External Auditor to be drafted and sent.	Tony Read for Martin Wilkinson	Verbal report back to meeting	
13/10	Appointment of Internal Audit service – to obtain a clear line from the SEL Chief Finance Officers	Tony Read to brief Ray Warburton	Verbal report back to the meeting	

13/12	Assurance on the transfer schemes and the issues for the received organisations to be brought to the next meeting.	Tony Read	March meeting	
13/13	A summary of the HFMA Audit Committee Handbook to clarify the Audit Committee's role to come back to the next meeting.	Diana Robbins	March meeting	Verbal report
	A summary of the PCT HFMA Accounts Guide to come back to the next meeting.	Dr Faruk Majid		Verbal report
13/14	The explanation given at the Committee on the process for the BAF and Risk Registers to given to the Governing Body	Graham Hewett	March Governing Body meeting	On Governing Body agenda