

<b>Report to</b> Trust Board or name of Assurance Groups <sup>1</sup>	<b>Date of meeting</b>	<b>Attachment number</b>
Trust Board	5 November 2009	Appendix 10.2

<p><b>Title of paper</b></p> <p>Audit committee minutes</p>
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<p><b>Summary</b></p> <p>Unconfirmed minutes of audit committee meeting held 8 September 2009</p>
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<p><b>Action required / recommendation</b></p> <p>For the board to note</p>
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<b>Report From</b>	Audit Committee
<b>Author(s)</b>	J Walbridge
<b>Date</b>	15 October 2009

<sup>1</sup> Assurance Groups = Audit Committee, Remuneration Committee, Finance and Performance Committee, Healthcare Governance Committee, HR and Diversity Committee, Clinical Services Executive, Management Executive

**Minutes of the Audit Committee  
8 September 2009**

**Present:**

R Chada (RC), non executive director<sup>2</sup>  
Professor H Hodgson non executive director, chair  
D Pascall (DP), non executive director

**In attendance:**

C Bruce (CB), interim chief executive, RFH  
J Buggle (JB), director of finance  
D Bushell (DBI), internal audit officer, ParkHill  
P Collins (PC), IT audit manager, ParkHill  
D Dodd (DD), Trust chairman  
P Johnstone (PJ), engagement lead, Audit Commission (part)  
A Patil (API), local counter fraud, ParkHill  
A Pattni (APi), financial controller, RFH  
J Walbridge (JW), head of corporate affairs, RFH

**ACTION**

**26/09 APOLOGIES FOR ABSENCE**

All members were present.

Mr Dodd had been invited to attend the meeting to discuss governance arrangements.

**27/09 MINUTES OF THE LAST MEETING**

The minutes of the meeting of 8 June 2009 were approved as a correct record.

**28/09 MATTERS ARISING**

There were no matters arising that were not taken as substantive items within the proceedings of the meeting.

**29/09 EXTERNAL AUDIT (Audit Commission)**

29.1/09 [Annual audit letter 2008/09](#)

Mr Johnstone apologised that the original papers circulated had not included the trust's response and action plan.

Mr Johnstone reported that it had been a difficult year for the trust and in undertaking the audit, however an unqualified opinion on the trust's accounts had been issued by the DH deadline of 12.06.09.

*Significant issues from the audit*

- Two material and some non-trivial amendments with respect to reclassifications of balances, however no impact on the trust's reported position (bottom line).
- Working papers to support income and expenditure had not been provided at the start of the audit and there were a significant number of information requests which had not always been provided promptly.
- During the audit, the trust revised a number of narrative disclosures for accuracy and completeness.

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<sup>2</sup> To 30.4/09

It was acknowledged that some of the reasons for delay could be attributed to new staff and it was not considered that there had been any deliberate intention to mislead. Recommendations made with respect to the financial statements and statement of internal control had been agreed by the management team and some progress had already been made.

In response to Mr Chada's comments about the critical importance of achieving the 2008/09 cost improvement (CIP) plans (£7m), Mr Buggle explained that the revised figure was £8.2m. While sources of funding had now been identified these had not been disclosed in order to maintain pressure on services to identify CIPs since 2010/2011 presented a greater (7.5%) CIP challenge.

Prompted by Mr Chada's question regarding the external auditor's view and confidence that the trust could meet its CIPs, Mr Johnstone cautioned that forceful CIPs and a declared large surplus could have an adverse impact on the relationship with staff.

Mr Buggle was confident that divisional leads understood the need for a large surplus since the planned surplus of £500k, though ahead of target, was insufficient for an operating income in excess of £400m.

Two corrections to the action plan recommendations were requested (appendix 2): R4 – responsible officer, director of finance  
R5 – director of planning.

PJ

**The committee noted the annual audit letter 2008/09.**

**For submission to the trust board - October 2009 meeting.**

PJ

#### 29.2/09 Auditor's local evaluation (ALE) report 2008/09

Mr Johnstone highlighted that the comparative charts were missing, pending discussion of final scores with some organisations. An action plan against the 18 recommendations had been agreed with the management team.

Mr Johnstone highlighted the deterioration in performance and score from the previous year largely due to the impact of the Cerner implementation. Nine of the key lines of enquiry (KLOE) scores had reduced by 1 and a further one by 2 (managing significant business risks) compared to the previous year. However because the trust achieved a score of 3 for financial management, financial standing and value for money, an overall score of 3 (performing well) had fortunately been achieved.

Mr Pascall was alarmed at the deterioration in assessment scores and asked what was being done to reverse this trend. Mr Buggle acknowledged the need for improvement together with the fact that not all of the key findings and conclusions could be attributed to the Cerner implementation (see agenda item 30.4/09).

Members discussed the report findings noting the importance of achieving a surplus and that value for money remained strong.

**The committee noted the draft ALE report which would be submitted to the audit committee for information at their December meeting.**

PJ

**The committee thanked Mr Johnstone who would be stepping down as engagement lead in the near future for his work on behalf of the trust and looked forward to welcoming his replacement, Andrea**

**White together with the trust's new audit manager, Andrew Chapel.**

**30/09 INTERNAL AUDIT (ParkHill)**

**30.1/09 Internal audit plan 2009/10**

Mr Bushell explained that as a result of changing the audit year from June 08 to July 2009 to an April to March plan the number of days had been revised as reflected in the strategic plan, including an additional 122 proposed computer / system audit days for 2009/10 - total 547 days, 2010/11 425 days, 2011/12 425 days.

Further to the previous draft, some changes to the number of audit days had been made for the financial ledger, treasury management and accounts payable to reflect weaknesses identified the previous year (limited assurances). This audit work had commenced on 07.09.09.

Mr Bushell reported that the Cerner decision making review work was now almost complete.

In response to Professor Hodgson's question regarding managerial negotiation, Mr Buggle confirmed that he was the executive team lead.

It was noted that the computer audit and duration had not yet been agreed but in the private meeting between members and auditors members had been informed that a proposal of three options (80 days, 40 days or other) was being developed for Mr Buggle and Mr Fleming to consider in the near future.

DB

The phasing of the 2009/10 audit plan and reports to audit committee was discussed briefly.

DB

**It was agreed that since there was only a limited assurance for human resources, this audit must be expedited.**

DB/KF

**The audit plan was agreed subject to resolution of issues relating to the computer audit detail and duration.**

**30.2/09 Internal audit progress report on 2008/09 – 2010/2011 plan**

Professor Hodgson sought assurance that action plans for the areas for of limited assurance (payroll and HR) would be progressed in order to achieve full assurance by March 2010, noting that some implementation dates stated March 2009. Mr Bushell confirmed that work had already been progressed and that review of implementation plans would commence now that ParkHill were based on site.

In response to Professor Hodgson's question regarding management acceptance or otherwise of recommendations made, Mr Bushell confirmed that it was usually possible to negotiate a compromise.

As an example, Mr Buggle explained that updating of the claim form (payroll reference 4.3) had not been accepted since it served no useful purpose.

It was noted that the cost effectiveness of any recommendation needed to be considered in terms improving control.

Substantial assurance for asset management had been reported and that the format and content of the progress report had improved from previous years.

**Mr Bushell to present Cerner, overseas patients and private patients report to December audit committee meeting.**

DB

**30.3/09 Audit committee self assessment (internal audit with DoF)**

In line with best practice, a report to the audit committee would be prepared for the December 2009 meeting to set out how the committee has met its terms of reference using the NHS Audit Committee Handbook, 2005 template.

DB/JB

**30.4/09 Update on improvements to process in finance - presentation**

Mr Buggle tabled a copy of the finance consultation document (*the strategy for the finance function at the Royal Free Hampstead NHS Trust, 21.08.09*) which included a vision ("to be the best") together with how this could be achieved. Mr Buggle stressed the need for the team to evolve beyond "book keepers" to play a greater role in strategy, performance management, supporting the business needs of the trust; adding value rather than just numbers.

Mr Buggle emphasised that there were a lot of hard working, loyal and diligent staff within the team.

Mr Pattni presented the finance development plan including:

- getting the basics right
- improving customer satisfaction
- training and development
- financial planning

In response to Dr Bruce's comments about managing people's expectations, Mr Buggle acknowledged that clarity was required which was one of the reasons why the consultation document had been so widely circulated against which the team could be performance managed.

Mr Johnstone welcomed the initiative noting that structural as well as cultural change would be addressed.

**The consultation and plan to improve processes in finance was noted by the audit committee.**

**31/09 COUNTER FRAUD**

**31.1/09 Counter fraud service progress report 2009/10**

Ms Patil provided an update on work undertaken since the last meeting and explained some of the counter fraud work in relation to alleged fraud. Since submitting the report there had been one or two developments about which the committee were briefed including disciplinary action (dismissal) and action being taken to recover payments. One case being investigated involved potential fraud relating to Royal Free Charity funds.

In response to Mr Pascall's question regarding the trust's performance compared with other trusts, Ms Patil explained that the number of referrals varied but was similar to comparable and larger trusts. Ms Patil was confident that controls were getting better and messages to counter fraud were effective.

The Counter Fraud Management Service was currently considering the compound indicators the result of which would be reported to the December meeting. It was hoped that the trust's score would improve from 2 to 3, though this could not be guaranteed.

**The committee noted the counter fraud progress report 2009/10.**

**32/09 GOVERNANCE**  
32.1/09 **Healthcare governance committee**

**The unconfirmed minutes of the healthcare governance committee held on 14.07.09 were noted.**

**32.2/09 Link between healthcare governance committee and audit committee**

Mr Dodd reported that, following initial discussion, the board had planned to consider the trust's governance arrangements in October.

A common definition for assurance would also be defined in terms of probity, compliance and performance. Mr Dodd's own view was that insufficient time was being spent on the performance element of assurance and that there needed to be tighter alignment between the board committees and the trust's goals, for example improving the patient experience.

While there had been previous debates on whether the audit committee should consider non-financial matters, the terms of reference enabled a focus on any subject / control process. Members discussed the role and membership of the audit and healthcare governance committees in support of the board and the need for integrated governance arrangements (corporate governance and clinical governance). Mr Johnstone commented that he attended 11 audit committees, of which only one included clinical governance, though several had shared attendees. Monitor would look for effectiveness of the structure rather than committee arrangements.

**It was generally agreed that it could be difficult to combine the committees but that it would be possible for wider governance arrangements to be improved without major changes.**

**33/09 WAIVER TO COMPETITION REGISTER**

Professor Hodgson explained the role of the committee in considering the waiver to competition register (compliance with standing orders) on behalf of the trust board.

It was noted that some of the waivers included related to supply chain contracts which should not be included.

**It was agreed that only new waivers should be included in future reports.**

**JW**

**Mr Buggle to provide details of waivers 670 and 685 to Ms Walbridge.**

**JB**

**The waiver register for pharmacy (nil), projects and procurement was noted.**

**34/09 LOSSES AND SPECIAL PAYMENTS**

In response to Professor Hodgson's question level of losses and special payments in 207/08 and 2008/09 caused by a backlog of debts cleared, Mr Buggle explained that for 2009/10 there were again a number of issues to be addressed relating to private patients. Mr Pattni explained that while the trust may have an undertaking from the relevant embassy to underwrite the cost of treatment, when invoices are raised there were sometimes problems in particular with one embassy. Mr Johnstone commented that amounts were similar to other trusts, and that those near major airports incurred greater losses.

Professor Hodgson noted that the number of salary overpayments had reduced in number and reaffirmed the committee's opinion that these should not occur.

In response to Mr Pascall's question regarding write-off of bad debts, Mr Pattni confirmed that all debts were pursued through debt collection agencies before being written off in line with the trust's standing financial instructions.

**35/09 TERMS OF REFERENCE**

The terms of reference, which had been updated to include counter fraud, were agreed. It was acknowledged that as part of the wider governance arrangements review, further changes may be required after October 2009.

**Terms of reference to be considered by trust board in October with a view to agreement and revision of the standing orders.**

**JW**

**36/09 ANY OTHER BUSINESS**

None.

**37/09 DATE OF NEXT MEETINGS**

Thursday, 3 December 2009 at 1600 hours, board room, level 2

Thursday, 4 March 2010 at 1600 hours, board room, level 2