

AUDIT & ASSURANCE COMMITTEE

Notes from the meeting held on Tuesday 20 April 2011
Time: 13.00 – 16.15
Venue: Room AD77, Maple House, East Surrey Hospital

Present:		
Edward Cooke	EC	Non Executive Director (Chair)
John Power	JP	Non Executive Director
Norma Christison	NC	Non Executive Director
Richard Durban	RD	Non Executive Director
Phil Burton	PB	Audit Commission - Manager
Nick Atkinson	NA	RSM Tenon –Director
Sarah Pratley	SP	Parkhill - Local Counter Fraud Specialist
Paul Simpson	PS	SaSH - Chief Financial Officer
Jo Thomas	JT	SaSH - Chief Nurse
In Attendance (SaSH)		
Michael Wilson	MW	Chief Executive
Lorraine Clegg	LC	Deputy Director of Finance
Majid Bhatti	MB	Chief Financial Accountant
Coral Jackson	CJ	Head of Financial Management
Sue Mason	SM	Head of Employee Relations (Agenda item 5c)
Clinton Krynie	CK	Deputising for Ian Mackenzie
Richard Hirshman	RH	Contractor (Agenda item - Endoscopy project only)
Gillian Cruse	GC	Minute taking

1	<p>Welcome and apologies</p> <p>E Cooke welcomed people to the meeting and apologies were noted from Darren Wells, Justine Thorpe and Ian Mackenzie</p>
2	<p>Minutes of previous meeting held on 15th February 2011 and matters arising</p> <p>Two amendments to minutes: Item 3a paragraph 4. Sentence should read: <i>He said that it raised a number of issues without describing actions to deal <u>with them</u>.</i></p> <p>Item 7, paragraph 2 Should read: 50/50 split wording revised to “equivalent time and resources” P Simpson advised that the Work Plan document had been amended</p> <p>With the above amendments noted the minutes were recorded as an accurate record of the meeting.</p> <p>Actions arising C Krynie gave an update on the previously submitted Data Assurance framework audit. The recommendations within this audit are still in the process of being updated.</p> <p>The New Data Quality warehouse is now fully up and running and capturing all</p>

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	<p>data quality. A consultant will own and review activity. Regular samples are being taken and reports are now being produced.</p> <p>In response to a question raised, C Kryn timer gave assurance that data is now secure as Cerner has emergency back up systems. He was confident that the scoring would move from “2” to “3” by the end of May. It was agreed that I McKenzie would be asked to give regular updates on progress to the AAC and data quality will be added to the Performance Scorecard.</p> <p>Action: Data Quality to be added to Performance Scorecard</p> <p>All other outstanding actions from previous minutes covered within the agenda.</p>	BB
3	<p>a Draft Un-audited Accounts</p> <p>Prior to going through the accounts E Cooke, on behalf of the NEDs, advised that they only had one hour prior to the meeting to read the accounts papers so feedback would only be initial opinions.</p> <p>P Simpson advised that the timetable for preparing and submitting the draft accounts is very tight and that submission of them, at this stage, mirrors that of previous years. PS explained that the AC is required to approve the draft accounts prior to submission to the DH. This deadline is 9am on the following day (21 April 2011). Further, P Simpson reassured the AAC that this set of accounts was a draft and would now be subject to a thorough review by the external auditors over the following five to six weeks ahead of submission, of the final accounts, on the 10th June 2011.</p> <p>The papers presented were:</p> <ol style="list-style-type: none"> 1. Un-audited Draft Accounts 2. Draft Statement of Internal Control (SIC) 3. Draft Annual Report. 4. Draft Head of Internal Audit Opinion. <p><u>Draft 2010/11 Un-audited Accounts</u></p> <p>P Simpson presented the draft accounts highlighting key points:</p> <p>Page 15 outlined the Statement of Comprehensive Income for the Year ended 31 March 2011. The I&E forecasted position is a £399K deficit but after adjusting for a technical impairment of £729K is a £330K surplus which is consistent to what had been reported earlier. This is £4.5m adverse to the planned surplus. P Simpson confirmed that the technical impairment was included within note 8 of operating expenses on page 33 of the draft accounts.</p> <p>There had been some minor changes made to Version 3 of the draft accounts which had been distributed earlier and L Clegg circulated a sheet identifying these changes.</p> <p>P Simpson advised that a Section 19 letter will be issued by the Audit Commission for 2010/11 as the Trust had not fulfilled its obligation to repay the entire balance of the loan in that year and also its breakeven duty. There is also a high level of risk around the 2011/12 budget and around sustainability which further underpins the requirement for the letter.</p> <p>In response to a question around the implication to the Trust of the issue of a S19 letter, P Burton stated that the Auditors were under obligation to notify the Secretary of State when a trust such as SASH faces these financial</p>	

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circumstances. It was important that the SHA and DoH were aware that the Board had signed up to the potential gap for 2011/12. The S19 letter will capture the 2010/11 issues and also give pre-advice of the potential future risks. M Wilson advised that a tri-partite agreement on our financial position has been agreed with the SHA and DoH.

N Atkinson advised that this letter was normally written at the end of year but the Trust was taking an honest, transparent approach and it put the Board in a strong position in signing up to an agreement of the situation and is being proactive.

L Clegg then went through some of the key issues to note on the draft accounts and gave an explanation both verbally and in the accompanying briefing paper.

- Outstanding loan balance has not been paid
- Disposal of Fairfield House resulted in a technical impairment of £729K
- Management costs have increased
- Capital cost assumption is high at 3.5%
- EFL has undershot (this is allowable)
- CRL has changed slightly (underspend agreed with SHA in year)
- Update from ISA 260 reports last year
- Indexing had been used to revalue the estate upwards, instead of the District Valuers (DVs) desktop assessment which would have resulted in a significant fall in value.

In response to a question raised, P Simpson explained that the DVs valuation had not been accepted as it was based on their valuation of the estate at the end of the prior year which had not been accepted at that time. The Audit Commission are reviewing this on the Trust's behalf. The SHA and DoH have been advised of the potential impact on the I&E if the DV valuation is to be used. The SHA have confirmed that any impairment impact on the I&E will be treated as a technical adjustment. Dialogue with the District Valuer is also being held to ascertain their valuation methodology.

P Simpson outlined specific risks and gave an explanation of all risks.

1. Overall financial position
2. Additional income from commissioners
3. Asset valuation
4. Fairfield House sale
5. Stock
6. Management costs.

In response to a question raised by E Cooke around management costs which he felt should be reducing, M Wilson confirmed that he was happy with the costs that had been put in. There had been a full change in management structure and operational expenses were up plus the wte of the Trust was now up by 100.

The Trust's financial position was much stronger than 6 months ago and he recognised the hard work that the Finance team had done to produce these accounts. E Cooke re-iterated the thanks to the Finance team on behalf of the NEDs.

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	<p>PS will be producing a bridge analysis giving full explanations to all changes compared to last year and this will be distributed. Action: P Simpson to produce bridge analysis against last year's accounts.</p> <p>A sheet highlighting losses and compensation was also circulated and entries explained.</p>	PS
b	<p>Statement on Internal Control (SIC)</p> <p>The SIC was produced in a similar format to previous years and was presented in five sections.</p> <ul style="list-style-type: none"> • Section 1 identified the scope of responsibility and the accountability of the Trust. • Section 2 outlined the purpose of the controls. • Section 3 was in a similar format to last year but had been updated with the differences and improvements in the governance of the Trust, including new "Rules of Procedure for Board Sub-Committees." This included updates in governance and assurance around CQC monitoring. • Section 4 evaluated any change in risk and noted that the Rules of Procedures as stated above now clearly define roles of Board members including managing risk. • Section 5 reflects changes year on year in the effectiveness of the Trust. Three areas were declared as non-compliant which are failure to reach breakeven, liquidity and risks to achievement of 2011/12 budget. These had been noted by P Simpson above in his briefing on the accounts. It was also noted that the Trust was fully compliant with CQC standards. <p>R Durban queried the inclusion of the new Board committee structures within the SIC as these were fairly recent but it was advised that the new Committee structure was introduced within 2010/11. M Wilson and N Atkinson were confident that the changes should be reflected within the SIC as progress made.</p>	
c	<p>External and Internal Audit Opinion</p> <p>Internal Audit</p> <p>No reference to Endoscopy noted in this Audit Opinion as this will be discussed separately.</p> <p>Significant Control issues noted within this report had already been discussed by P Simpson within his accounts review above.</p> <ol style="list-style-type: none"> 1. Statutory breakeven duty 2. Risk to 2011/12 budget 3. Liquidity issue which is registered under BAF <p>Some significant performance risks still highlighted which were discussed.</p> <ol style="list-style-type: none"> 1. 4 hour A & E waiting times 2. 18 weeks 3. Publicity around "Dispatches" programme 4. Statement of Internal Control and Section 19 letter 5. SUIs - one SUI relating to swab left in maternity patient to be included 	

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	<p>A further “Never” SUI was discussed. It was agreed that guidance would be sought as to whether this should be included. (At the end of meeting L Clegg read through some guidance around “Never” SUI events and advice given was that judgement should be used on these.) It was agreed that the SUI in question had been a one off issue and would not be included.</p> <p>Apart from the Endoscopy audit, RSM Tenon gave “significant” assurance against work undertaken in 2010/11. This wording is mandatory but discussion took part around this opinion. No other significant issues noted with the SIC. Action: NA to review wording and amend to advise that risk relates to one specific risk.</p> <p>External Audit</p> <p>One minor amendment to be noted on Page 3 within the progress report regarding the timetable for Auditors to come to the Trust to review the accounts which should read 26/4/2011.</p> <p>Pages 1 – 4 of the opinion report gave a breakdown of the general approach to the accounts. Page 5 identified any potential risks.</p> <p>P Simpson advised the AAC of the significant improvements around stock control year on year which was now being recorded correctly. M Wilson also confirmed that the balance of stock is now being monitored and procedures being updated. The counting is now being carried out correctly. It is still a time consuming manual process but there is now much greater engagement and understanding within divisions. The Trust is also working closely with NHS Procurement to move forwards with improvements.</p> <p>M Wilson / D Wells / P Simpson currently discussing wording around the qualified opinion regarding financial resilience noted on page 7. Action: M Wilson / D Wells / P Simpson</p> <p>The Quality Accounts have been signed off by the Quality & Safety Committee and are now following due process. A separate audit is to be carried out by the Audit Commission on Quality Accounts.</p> <p>It was noted that the Audit Fee is less than last year. Fees for next year will be discussed separately.</p> <p>Reference to “Council Office” to be removed on page 18 and changed to “Trust”. Action: P Burton</p>	<p>NA</p> <p>PS</p> <p>PB</p>
<p>d</p>	<p>Annual Report</p> <p>This report was presented in a similar format to previous years. This was a final draft with no financial tables or remuneration figures added. This information will be embedded once auditors have finally signed off.</p> <p>L Clegg noted that on page 45 the figure should read £4.5 not £4.8. It was appreciated that the NEDs had only seen this version briefly but two earlier versions had been distributed.</p>	

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	<p>The NEDs were requested to give approval to proceed; as with the accounts this needed to be sent off after the meeting. It was agreed to delegate P Simpson to make any minor amendments which would only be superficial changes.</p> <p>As with the Accounts, the Audit Commission will be reviewing the Annual Report over the next 4 weeks and the final version will be distributed to NEDs for review.</p>	
	<p>Endoscopy feedback</p> <p>Richard Hirshman gave an update to the AAC on the current situation regarding the Endoscopy project. Richard is a contractor who has been working with the Trust since June 2010. I Mackenzie is the executive lead for this project.</p> <p>This report had been presented at a previous AAC but at that time this had been in a draft format and no management responses had been added. Normally audit reports are not presented at draft stage but owing to the serious issues highlighted within the report it had been presented earlier.</p> <p>Serious issues around this project in 2008/9 were outlined and discussed.</p> <ol style="list-style-type: none"> 1. Tender process completed without completion of design 2. Work commenced prior to a contract being signed off 3. Some design creep in middle of project 4. Changes required due to new ruling around mix sex wards which had resulted in six weeks delay 5. Increased architect costs due to above <p>The adverse audit report above led to R Hirshman's contract to supervise the major project.</p> <p>It was noted that there was a differing opinion with Internal Audit over the wording of the report around how the cost to complete should be agreed. It was noted that it was not the fault of the builders as the changes were out of their control. The project was stopped to ensure that a further tender exercise was conducted to four selected contractors. A new tender went out in February 2011 and receipt of tenders has now resulted in an additional outstanding requirement of £100K. This will be bought to a future Trust Board for approval.</p> <p>Noted the need to mention "root control embedded in prior years". Action: N Atkinson to change wording in Head of IA Opinion.</p> <p>In response to questions from the NEDs, M Wilson and P Simpson both gave assurance that there were now correct processes in place to deal with large projects in the future. The endoscopy project was old and should have been dealt with immediately but changes have been made since the submission of the draft audit and assured that processes in place which will avoid repetition. The key improvement with tender projects relate to the improved leadership with executive and project leads and a Capital Management group in place. There is clinical involvement with this management group.</p> <p>Actions:</p> <p>1) Additional funding for the final tender for the Endoscopy project to</p>	<p>NA</p>

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		<p>be agreed at Investment & Workforce Committee next week. Progress would be reported there and at the Trust Board as necessary</p> <p>Discussion took part around any recourse to Builders and Architects and it was noted that the Contractors have been advised that there will be a claim pending.</p> <p>Following the above discussions, N Atkinson confirmed that he was now confident with the management decisions being taken and the reasons and explanations given against actions. He believed that the actions taken would achieve the best results for the Trust.</p> <p>M Wilson advised that the tendering process at the Trust at the present time is very long and time consuming and needs to be reviewed. He agreed to keep the NEDs informed of progress. The agenda item will now be removed from AAC and taken to Private Trust Board next month.</p>	<p>PS</p> <p>PS</p>
4	a	<p>Report MB (Quality & Risk)</p> <p>J Thomas had attended her first MB(QR) meeting this week and this was the first AAC meeting that she had attended.</p> <p>She advised that she will be amending the format of the MB(QR) report for the next AAC, developing assurance around governance. At the present time monthly MB(QR) meetings are held but J Thomas did not believe this gave enough time for development. She was now in the process of setting up divisional level forums on a monthly basis where specific divisional issues and risks would be discussed and actions put in place with increased ownership. This would also enable more shared learning and more focus and engagement. Divisional heads would be invited to talk to future Trust Board to discuss any cultural shifts. It was confirmed that the divisional “Deep Dive” governance meetings will continue.</p> <p>J Thomas requested up to six months to embed new processes but in the meantime regular updated reports would still be provided to the AAC for assurance.</p>	<p>JT</p>
	b	<p>BAF</p> <p>Noted that the last BAF was produced for the March Trust Board and a further update will be presented to the next Trust Board.</p> <p>Nick Atkinson commented on the areas of assurances reviewed and whilst generally these were reasonable there were some weaknesses noted around the assurances on Appraisals.</p> <p>R Durban asked when the 2011/12 BAF would be discussed. Agreed to discuss at next Board meeting.</p> <p>Action: Ensure 2011/12 BAF is on the agenda for May Trust Board</p> <p>Two points noted which requiring updating in BAF.</p> <ol style="list-style-type: none"> 1) 6.1.1 PDP / Appraisal process still not embedded. 2) Split out controls and risks 	<p>PS</p>

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5	a	<p>Progress report – External Auditors</p> <p>The External Auditors will start at the Trust on the 26/4 to validate the accounts which will take 4-6 weeks.</p> <p>E Cooke requested the inclusion of the Gantt chart for future meetings. Action: J Thorpe to provide Gantt chart for June meeting.</p> <p>R Durban questioned the accuracy of the Quality & Assurance data and how this was tracked. It was noted that “Monitor” was the framework for FT compliance and the AAC were assured that the Trust was still running and tracking against these guidelines. Agreed that all current Boards and sub-committee are compliant with “Monitor” and governance.</p> <p>Noted that self-assessments are currently being undertaken and frank and honest up front discussions are being held.</p> <p>NHS Spending L Clegg advised that there is currently a complete review of all procurement costs. All non-stock catalogues are now being limited and all items being reviewed. The Trust is working with the NHS Procurement team to review all purchases made at the Trust to ensure best Value for Money. The auditors advised that the initial work on higher non pay spend had been positive. Both KPMG and the Trust Transformation group are also currently reviewing savings.</p>	JT
	b	<p>Progress Report – Internal Auditors</p> <p>N Atkinson went through the Progress Report which did not identify any red risk items.</p> <p>Salary overpayment was one of the areas where tighter controls were required and stricter controls needed when people leave the Trust. Confirmed that LCFS will be interviewing staff where salary overpayments had been given and plans will be agreed for repayment.</p> <p>Agreed that that budget managers should also be checking and any overpayments should have been spotted at an earlier stage. An e.mail will be sent out to all budget managers to remind them of procedures.</p> <p>J Power requested some wording against the dashboard in preference to the arrow system. N Atkinson agreed to write some wording at the beginning of each report breaking down the colour system. He also agreed to note the length of time actions were outstanding. Action: N Atkinson</p> <p>R Durban noted that there were 26 recommendations outstanding and requested a further breakdown and understanding of figure and actions. A table outlining all outstanding actions to be sent to Executives and if responses not received they will be invited to attend the AAC to give an explanation regarding actions. Action: N Atkinson / G Cruse</p> <p>P Simpson advised that a pre meeting is now set up 2-3 weeks prior to each</p>	<p>NA</p> <p>NA/GC</p>

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	<p>AAC attended by E Cooke , P Simpson, N Atkinson, M Bhatti and G Cruse At this pre-meet the agenda for the next meeting is discussed and set to ensure all outstanding actions are covered.</p>	
c	<p>Progress Report – LCFS</p> <p>S Pratley is currently drafting the LCFS Annual report which she will present at the June AAC along with a draft workplan. S Pratley and S Mason then went through the outstanding investigations noted at previous AAC meetings and their current status.</p> <p>The investigation around potential false ID now completed and closed. No fraud identified.</p> <p>Investigation PAA 4344 relates to a member of staff who was on long term sickness in 2009 and is suing the Trust for personal injury. This is still under investigation but the member of staff’s employment has now been terminated.</p> <p>It was agreed that there is an urgent need to speed up the process of hearings and clear decisive actions need to be taken. S Pratley and S Mason working with Capsticks to review this process. Discussions held around number of investigations currently in abeyance.</p> <p>On a positive note, S Pratley advised that some money has been reclaimed from staff who have left the Trust and had been overpaid. As noted in the Internal Audit report, work is in progress to review the processes when staff leave the Trust to ensure that these problems do not re-occur.</p> <p>It was also confirmed that all processes are in now in place for immigration checks. E Cooke requested that an agreed date of completion be added where possible. Action: S Pratley to add date of completion of investigations to report.</p> <p>Hospitality & Gifts Advised that a clause around acceptance of hospitality and gifts in now included on all contracts of employment. A Directors declaration goes to each Trust Board and the Executive and Non Executives are reminded on an annual basis of their responsibilities with a register held by A Van Vliet in her office. S Pratley has drafted a policy which is currently with P Simpson and this will be circulated once finalised. This will be tied up with the new “Bribery Act” information.</p> <p>M Wilson confirmed that one of the key priorities was to stop people coming on site without going via Procurement. The instructions for site visits will be re-launched across the Trust.</p>	<p>SP</p> <p>SP</p>
6	<p>SaSH reports</p> <p>No SaSH reports presented at this meeting.</p>	
7	<p>Review of Audit agenda and performance of AAC</p> <p>IA Strategy This is a NED led strategy which has been updated from last year. Discussed briefly at the AAC pre-meet today. A few updates to be made and circulated to NEDs. Final version will be brought to June AAC meeting.</p>	<p>NA</p>

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		No specific comments regarding present agenda.	
8		<p>Date of next meeting</p> <p>2nd June 10.00 – 13.00</p> <p>Pre-meet at 09.30 for NEDs, Internal and External Auditors (in AD77)</p>	