

AUDIT & ASSURANCE COMMITTEE
31 May 2013

ITEM:

MINUTES OF AUDIT & ASSURANCE COMMITTEE

SYNOPSIS:

**Attached are the minutes of the Audit & Assurance Committee held
on 31 May 2013**

AUTHOR:

**PAUL SIMPSON
CHIEF FINANCE OFFICER**

ACTION REQUIRED:

FOR APPROVAL

Signed by the Chair of Audit & Assurance Committee.....
(subject to amendments duly recorded)

Date:

AUDIT & ASSURANCE COMMITTEE

Meeting held on Friday 31 May 2013 10.00 – 12.00
Venue: Room AD77, Trust HQ, East Surrey Hospital

Present:		
Richard Congdon	RC	Non Executive Director (Chair)
John Power	JP	Non Executive Director
Richard Durban	RD	Non Executive Director
Richard Shaw	RS	Non Executive Director
Paul Simpson	PS	Chief Finance Officer
In attendance:		
Yvette Robbins	YR	Non-Executive Director
Darren Wells	DW	Grant Thornton
Jamie Bewick	JB	Grant Thornton
Lorraine Clegg	LC	Deputy Chief Finance Officer
Majid Bhatti	MB	Head of Financial Accounts
Gillian Francis-Musanu	GFM	Director of Corporate Affairs
Joe Aslam	JA	Internal Audit
Apologies		
Nick Atkinson	NA	Internal Audit

		Action by :
1	<p>Welcome and Apologies for absence</p> <p>RCongdon welcomed everyone to the meeting and apologies were noted.</p>	
2	<p>Minutes of last meeting</p> <p>The minutes of the two prior meetings held on 5th March and also on 22nd April were reviewed.</p> <p><u>5th March AAC:</u></p> <p>There were no adjustments made to these minutes and they were recorded as being a true and accurate record of the meeting.</p> <p>ACTION :</p> <p>Revised Medical Records action plan to be circulated between meetings of the AAC and to be presented to the next AAC meeting by DHolden.</p> <p>DH to complete action plan and to be presented to the July AAC.</p> <p>PSimpson to review the SFI's and amend them to ensure the Committee has greater freedom to decide the regularity of the losses and Comps paper coming to the AAC.</p> <p>Carried forward to July AAC.</p>	<p>Action 1 DH</p> <p>Action 2 PS</p>

		<p>The BAF to include if the assurance is internal or external as well as to be reviewed regularly by management.</p> <p>GFM confirmed that BAF will include relevant assurances and will be presented to next Board.</p> <p>MBhatti to provide further breakdown on the bad debts including percentages of patient income resulting in write off.</p> <p>Carried forward to July AAC.</p> <p>The date of the September AAC meeting to be confirmed as the 2nd or 3rd of September with consultation with RCongdon.</p> <p>The Sept AAC has been confirmed for the 2nd September 2013.</p> <p><u>22nd April AAC:</u></p> <p>Apart for a minor correction to a spelling error these minutes were recorded as being a true and accurate record of the meeting.</p> <p>All other actions noted within the minutes had been completed or were included within the current agenda for discussion.</p>	<p>Action 3 GFM</p> <p>Action 4 MB</p>
3	a	<p>2012/13 accounts – financial analysis</p> <p>PSimpson presented a paper which supplemented the accounts and the auditor’s reports providing additional information on income and expenditure, savings delivery and movements within the statement of financial position.</p> <p>The following four key points arose from the 2012-13 accounts:</p> <ol style="list-style-type: none"> 1. £0.3m surplus delivered in line with Trust plan – and delivery of £10.0m savings plan; 2. Non recurrent income received from PCTs of £13.4m and the underlying deficit was £(9.1)m; 3. The underlying position is better than planned because of income growth with a lower marginal cost; 4. Cash support received: PDC of £3.0m received to fund capital spend; 5. Working capital remains very weak and the liquid ratio will continue to fluctuate around minus 20 days. It would require additional cash 	

		<p>injection of £18.0m to restore this ratio to plus 15 days, the foundation trust benchmark.</p> <p>A discussion followed around the relevance of the break even duty and it's significance to the Trust as a Going Concern.</p> <p>PSimpson explained that the Trust was not vulnerable due to the Break Even Duty as this has been a historic requirement within the accounts and does not relate to current FT criteria. Whilst the break even figure is calculated from past deficits, cash injections, such as PDC, which keep the Trust operating, are ignored.</p> <p>A discussion arose around the Trusts current financial position.</p> <p>PSimpson explained that the improved underlying deficit (as detailed within the Bridge chart) arose from the following areas:</p> <ul style="list-style-type: none"> - an increase in income received above planned levels and with the benefit of smaller associated costs. - The smaller cost base has been due to activity carried out through the day case unit with the additional benefit of achieving the 18 weeks target. - Improvements in coding. <p>However, costs increased as the Trust is still relying on agency staff and depreciation had increased due to the ongoing capital programme.</p> <p>The Committee requested further explanations to the Trusts working capital position and PSimpson explained that the liquidity ratio of minus 9 days (against Monitor's criteria of plus 15 days) was due to a large cash balance held at the end of the year. The current financial plans detail the Trust requiring a working capital facility of £18m to meet the Monitor metric. Discussions are ongoing with the TDA for the Trust to receive non-recurrent funding of £5.5m without which the Trusts liquidity will worsen.</p> <p>The Committee offered their thanks to PSimpson for a very informative paper.</p>	
	b	<p>Final Audited Accounts</p> <p>The Committee had no further comments on the audited accounts as the CFO accounts paper provided sufficient assurances and information.</p>	
	c	<p>Final Annual Report</p> <p>The following changes were noted to be made to the Annual Report:</p>	

	<p>1. The remuneration table included prior year salaries which related to 2010-11 in error, the comparator should have been 2011-12.</p> <p>2. Recognition of contribution made by the Friends and Charitable Funds.</p> <p>Action : To finalise Annual Report with changes as described above.</p> <p>PS commented that when the decision around the £5.5m non recurrent support is made, the annual report will be amended to reflect that conversation before the Annual Report is presented to the Annual general meeting in September 2013. This was noted and agreed.</p> <p>In response to a request made by RCongdon that the Annual Report (as well as the Annual Governance Statement) is made available earlier to the Committee, GFMusanu confirmed that these reports are available ahead of the first accounts AAC (in April) and that the numbers would be de-coupled from the narrative to expedite this.</p>	<p>Action 5 GFM</p>
d	<p>Benchmarking your annual report</p> <p>DWells introduced the report as being based on the 2011-12 Annual report and summarised that the Trusts Annual Report benchmarks well against similar organisations. There were no substantive issues arising just some areas for refinement.</p> <p>GFMusanu confirmed that she would use the benchmark report to make improvements to next year's annual report and will give consideration to the Committees comments to include some narrative around attendances and also appraisals of the Chair and Chief Executive</p>	
e	<p>External Auditors Reports</p> <p>1. Audit Findings Report</p> <p>DWells explained the audit opinion on the following two key areas:</p> <ul style="list-style-type: none"> - Financial Statements: <p>DWells concluded that the annual accounts produced were of good quality with only a few disclosure changes and that there were no changes recommended to the Trusts surplus position. In this regard an unqualified opinion was given. This was a good endorsement of the efforts of the finance team in producing a good quality set of accounts.</p>	

	<p>- Value For Money</p> <p>DWells confirmed that whilst recognising the significant progress the Trust has made towards establishing a recurring balanced financial position and emerging issues such as day case improvements within ENT, a qualified conclusion was given on the basis of continued breach of breakeven duty and reflecting that the Trust did receive non recurrent support in 2012/13.</p> <p>On a question concerning the VFM conclusion next year DWells responded that this could only be considered at that time and will give consideration to the underlying deficits, contracting environment, relationships with commissioners and will have regard for the Trusts duties, then, around the breakeven duty.</p> <p>PSimpson also added that the Trusts current liquidity position was an important consideration in the auditors issuing a qualified VFM conclusion.</p> <p>On a question around the discrepancy with West Sussex of their balance outstanding of £3.7m PSimpson confirmed that this was not an issue for the Trust as it had recorded its balances with the PCT correctly in accordance with the signed Memorandum of Understanding.</p> <p>- Finance Resilience Report</p> <p>JBewick presented this report and highlighted key findings from the risk areas.</p> <p>PSimpson added that this report was a helpful and clear addition to the meeting. This view was endorsed by the non-execs and appreciation was given for both the historic and future issues impacting on the Trust.</p> <p>RDurban noted a change in title of the Finance and workforce Committee to the Finance and Investment Committee.</p> <p>DWells confirmed the difference in risk rating for the Board Assurance Framework and risk reporting as being due to the fact that the BAF was presented to the board more times than the Significant Risk Register.</p> <p>GFMusanu to give further consideration to the regularity of the BAF and SRR.</p>	<p>Action 6 GFM</p>
f	<p>Annual Governance statement (AGS)</p> <p>Covered in section 3b and c above.</p>	
g	<p>Representation Letter</p> <p>DWells explained that this was a generic letter and that involvement of the</p>	

		<p>Chair is to note the assertions made by management within the letter.</p> <p>PSimpson added that it was the first time in which the letter was clean without the need to make any further statements.</p>	
	h	<p>Head of Internal Audit opinion</p> <p>JAslam summarised that this was a clean opinion with no exceptions added.</p>	
	i	<p>Compliance with accounting standards – letters from CFO and AAC Chair (Management Representations)</p> <p>This was noted as being reviewed at the March AAC with no amendments made to it.</p>	
	j	<p>FORMAL ADOPTION OF 2012/13 ACCOUNTS</p> <p>The AAC adopted the 2012-13 accounts and offered their thanks for the efforts made by the finance teams and other contribution made by other teams in its successful completion.</p>	
	k	<p>External Audit Fee letter 2013/14 (draft)</p> <p>In response from a question around fee reduction with reduced levels of risk within the Trust DWells responded that the current fee set was a large reduction from the Audit Commission rate and there could be a possibility of a further reduction when the Trust achieves FT status.</p> <p>Fee was confirmed as appropriate.</p>	
	l	<p>Internal Auditors</p> <p>JAslam informed the Committee that the number of outstanding audit recommendations had reduced considerably from 67 to 24 and that for the remaining outstanding items none were high priority.</p> <p>JAslam also explained that the outstanding issues were now being reviewed by Management Board for Quality and Risk and that a member of his team (David May) was assigned to manage the audit tracker directly to improve completion of outstanding items.</p> <p>Five internal audit reports had been completed since the previous AAC: General Ledger; Information Governance; CQC Rolling review; Incident Management; and Clinical Audit follow up.</p>	

	<p>It was noted that Incident Management has improved but with only a part year of Datix in place. RC advised that a further view needs to be incorporated into the Audit plan for 13/14.</p> <p>There was then discussion around Serious Untoward Incident reporting with the conclusion being that the conversation needs to be continued and resolved at Board level.</p> <p>The Committee expressed their concerns that they had not seen the draft payroll report especially as it received an amber red rating and was outstanding since April. PSimpson explained that this report was still awaiting management responses and that the recommendations were procedural.</p> <p>Yvonne Parker requested to attend July AAC and to present payroll report.</p> <p>JAslam explained that there is an expectation of a turnaround of 10 working days from issue of draft report for responses to be received.</p> <p>AAC to be provided with procedures / processes around agreeing draft audit reports.</p> <p>JAslam provided an overview of the audit assignments as well as the issues arising from these audits.</p> <p>Internal Audit Plan to be presented to July AAC.</p>	<p>Action 7 YP</p> <p>Action 8 JA</p> <p>Action 9 NA</p>
	<p>Review of audit agenda and performance of Audit Committee</p> <p>On the whole the committee felt that the proceedings have been conducted at an appropriate pace which allowed for full discussion. The following actions were recommended:</p> <p>Action :To add a time scale against each agenda item.</p> <p>Action: To prepare a summary paper of action points to aid monitoring</p>	<p>Action 10 GFM</p> <p>Action 11 GFM</p>
	<p>Date of Next Meeting: 2nd July 2013</p>	