

Title of paper:	Audit Committee Report July 2015		
Author:	Justin Dix, Governing Body Secretary		
Exec Lead:	Matthew Knight, Chief Finance Officer		
Date:	10 th July 2015		
Meeting:	Governing Body		
Agenda item:	16	Attachment:	13
For:	Information		
<p>Executive Summary:</p> <p>Annual Report and Accounts</p> <p>Under delegated authority from the Governing Body the Audit Committee signed off on the Annual Report and Accounts on 22nd May. A report of the meeting as a whole is given below. There were no significant changes to either the report or the accounts which has been disseminated to Governing Body members and practices at the drafting stage.</p> <p>Annual Audit Committee report 2014/15</p> <p>The committee's annual report is attached. Key issues are as follows:</p> <ul style="list-style-type: none"> • Advising the Governing Body on control issues relating to the CCG's deficit position in 2014/15 • Improving procedures in the CHC team • CSU effectiveness • Managing issues relating to standards of business conduct, such as conflict of interest and hospitality • Managing actions relating to audit reports • Overseeing counter fraud arrangements • Overseeing policies <p>The Audit Committee met on the 22nd May 2015. Key issues for the committee from this meeting are as follows:</p> <ul style="list-style-type: none"> • Annual Report and Accounts sign off including internal and external audit opinions • IG audit position at the time of writing 			

- Financial planning with Grant Thornton
- New counter fraud arrangements
- GP prescribing

Compliance section

Please identify any significant issues relating to the following

Risk Register and Assurance Framework	The QIPP limited assurance issue relates directly to the financial recovery programme on the risk register
Patient and Public Engagement	No specific issues
Patient Safety & Quality	No specific issues
Financial implications	Financial recovery is on the CCG risk register
Conflicts of interest	No specific issues
Information Governance	No specific issues
Equality and Diversity	No specific issues
Any other legal or compliance issues	The annual report is a statutory duty on the CCG

Accompanying papers (please list): Audit Committee minutes for May 2015 (draft)

Summary: What is the Governing Body being asked to do and why? To NOTE the attached minutes and annual report and the highlighted issues.

Surrey Downs Clinical Commissioning Group

Meeting: Audit Committee

22nd May 2015

MINUTES

Present

Peter Collis, Chair
Alison Pointu

In attendance

Miles Freeman, Chief Officer
Matthew Knight, Chief Finance Officer
Dr Simon Williams
Justin Dix (Minutes)

Internal Audit

Clarence Mpofu
Giles Parratt

External Audit

James Thirgood
Christian Heeger

Counter Fraud

Andrew Morley
Grant Bezoudenhot

1. Welcome and introductions

Peter Collis welcomed everyone to the meeting. Grant Bezoudenhot was welcomed as the new counter fraud manager for the CCG who would be replacing Andrew Morley.

AC220515/001

2. Apologies for absence

There were no apologies. It was noted a new lay member for governance was being recruited to replace Gavin Cookman.

AC220515/002

3. Declaration of interests

Dr Williams noted he was now a partner in GP health partners limited which was a new body working to implement the prime ministers challenge fund projects in Epsom.

AC220515/003

4. Quorum

	The meeting was noted as being quorate.	AC220515/004
5.	Minutes of the last meeting	
	These were agreed as an accurate record.	AC220515/005
6.	Matters arising and action logs	
	053 – Agenda counter fraud arrangements of providers for discussion– deferred to July meeting	AC220515/006
	048 – Care home pricing – deferred to July meeting	AC220515/007
	029 – Executive to review governance capacity - it was noted this was being done as part of wider governance reviews including the governing body review and the work with NHS England on assurance arrangements. Miles Freeman said that not everything could be resourced and some areas may need to be risk managed.	AC220515/008
	Peter Collis asked that the Organisational Development and capacity plan should come to the next meeting of this committee.	AC220515/009
	Action Justin Dix	
	08 – Positive assurance on honorariums of clinical leads. Justin Dix reported on the ongoing work. Close existing action and schedule for a full report in July.	AC220515/010
	Action Justin Dix	
	10 – GP requirement to declare interests and hospitality – close existing action and schedule as forward business later in the year.	AC220515/011
	45 – Collaborative risk register. Miles Freeman updated – there was a governance review of the collaborative. Justin Dix was now leading this with the Good Governance Institute - it was suggested Steph Bennett should be involved going forward. Keep action open.	AC220515/012
7.	Head of internal audit opinion	
	Giles Parratt spoke to this. The report was based on audit work undertaken during the year and the organisation’s context of financial recovery. There was one limited assurance report (QIPP).	AC220515/013
	It was noted that there was significant weighting in the reports towards compliance rather than operational effectiveness. This was felt to be a positive message.	AC220515/014
	With regards to outstanding reports, there were two of these, one of which was the Information Governance (IG) audit which had been difficult to resolve. These did not affect the overall Head Of Internal Audit Opinion.	AC220515/015
	Matthew Knight noted that the IG audit had been difficult and the audit committee had been given a separate short paper on the issue.	AC220515/016

Peter Collis asked what the next steps would be on this and Giles Parratt said that there had been review and moderation within TIAA and there was no intention to modify the judgement. Miles Freeman expressed concern at this and suggested there might be a potential need for a re-audit. AC220515/017

There was a discussion about some of the individual issues, such as robustness of contracts, however there was no additional information that amended the report as it stood. AC220515/018

Peter Collis acknowledged that this was an unusual situation and noted that this needed to be resolved outside the meeting and asked that further work be undertaken to address the matter. Miles Freeman asked that this include a written account from TIAA as to how they had reached their conclusion. AC220515/019

Action TIAA

It was agreed this should be followed up by the Executive and come back to the next meeting. AC220515/020

Action Miles Freeman

Matthew Knight asked that it be noted that apart from this specific issue there had been a very good process around other audits and relationships with the auditors in general were very good. AC220515/021

8. External audit findings

Christian Heeger spoke to this. There were no material adjustments to the accounts necessary but the final opinion could not be given until (probably) the 28th May as some evidence was still needed. However despite this, there were no fundamental issues and he stated that the CCG should expect a clean audit opinion. AC220515/022

It was noted that this final sign off needed to be undertaken by the Chief Officer the following week but only on the basis that there were no material changes to the version being agreed by the Audit Committee and that the changes were only of a technical nature. AC220515/023

Peter Collis said the committee would need to listen to what the External Auditors had to say and take account of the degree of confidence they had in the evidence supplies as opposed to the absolute detail. AC220515/024

Christian Heeger noted the following issues: AC220515/025

- Presentational and working paper processes had been an issue and there would be some learning from this. AC220515/026
- The opinion would be unqualified in terms of accounting process. AC220515/027
- Regularity however would be qualified because of the deficit position and a S19 statement issued to the Secretary of State for health. AC220515/028

<ul style="list-style-type: none"> • Some issues had been recorded and resolved e.g. the position with St Georges 	AC220515/029
<ul style="list-style-type: none"> • Risks had been reviewed 	AC220515/030
<ul style="list-style-type: none"> • One contract (SE CSU) was unsigned and this was noted 	AC220515/031
<ul style="list-style-type: none"> • NHS England support had been required to balance the accounts and this was noted. 	AC220515/032
<ul style="list-style-type: none"> • Judgement of estimates – there was a potential over-accrual on prescribing of £354k but this was in the process of being resolved. This was not a material issue. 	AC220515/033
<ul style="list-style-type: none"> • There had been a downgrading of the CCG’s assurance by NHS England that was also noted. 	AC220515/034
<p>The above issues were noted without further discussion.</p>	AC220515/035
<p>James Thirgood then spoke to the issue of internal controls.</p>	AC220515/036
<p>There was a lack of information from the former CSU on off-payroll payments to GPs which made accrual difficult to assess. Matthew Knight noted that this had been a problem due to poor handover from the former CSU and was part of a wider pattern. The CCG would have a process in place going forward.</p>	AC220515/037
<p>There were a number of misclassification issues in the expenditure report which had been corrected.</p>	AC220515/038
<p>Value For Money – no significant issues other than the deficit position, which had been clearly documented. The rapid action taken by the CCG as soon as the deficit was identified was highlighted by the External Auditors. The CCG had put new arrangements in place for QIPP and transformation and contract management over the last six months.</p>	AC220515/039
<p>Miles Freeman queried the red for strategic financial planning and noted that no CCG had yet achieved an agreed budget with NHS England. James Thirgood said that this was a consistent approach with other CCGs in deficit; any CCG in deficit with no agreed plan would be red on this issue. Miles Freeman queried this. James Thirgood said that although the CCG had submitted their budget several times this had not yet been approved. Miles Freeman noted this was not unique to Surrey Downs CCG and that the CCG was securing services at lower cost than other CCGs. The CCG’s financial planning was probably now amongst the best in peer terms and was not in his view inadequate.</p>	AC220515/040
<p>James Thirgood said that the legacy of the £14m adverse swing in 2014-15 did not allow the opinion to be anything other than red at this stage. Peter Collis said that this seemed like a very black and white approach to take and that he had seen a huge amount of work going into financial recovery. The red rating seemed very critical given the actions taken by the CCG.</p>	AC220515/041
<p>Dan Brown noted that the budget submissions had been consistent and said that in his view the strategic financial</p>	AC220515/042

planning robust.

Matthew Knight agreed and said that the CCG had predicted the risk around the deficit and the subsequent planning had been a rapid response to the situation.

AC220515/043

Alison Pointu said she felt there was a mismatch between the narrative and the rating and agreed that the CCG seemed to be being automatically red rated because of the deficit. Miles Freeman asked for Grant Thorn's view of the CCG's forward planning. James Thirgood said that the CCG was accurately predicting financial trends but there was concern about what other bodies (such as NHS England) were questioning.

AC220515/044

Peter Collis said that he had no sense that NHSE felt that future planning was inadequate, and that the work done since last year evidenced this. He asked the auditors to reconsider this and if necessary discuss this with the COO and CFO outside the meeting. Miles Freeman reiterated the significance of this for the CCG and it was agreed that Grant Thornton would reflect on this.

AC220515/045

The action plan was noted in relation to the financial position and the need to agree this with NHSE was also noted.

AC220515/046

Matthew Knight asked about an incorrect figure on P29 (£19.8m); Grant Thornton acknowledged this and said they would correct the figure.

AC220515/047

Peter Collis noted this had been a difficult year for all parties and thanked both the auditors and the CCG's finance team for their hard work in getting this far.

AC220515/048

9. Annual Report and Accounts

The latest version of the Annual Report and Accounts was circulated.

AC220515/049

- It was noted that a number of changes had been made following external audit comment. There was a minor issue of clarification with the Annual Governance Statement that Justin Dix and James Thirgood would resolve later today. This involved rewording the comment on the withdrawal of assurance on Page 77.
- It was agreed that some changes would need to be made before the accountable officer signed off the specific sections during the week commencing 25th May. None of these were material.
- Dan Brown noted that the latest version of the Annual Report did not differ materially from that circulated on May 19th and that the changes that had been made since and still needing to be made were cosmetic.
- Matthew Knight said that there was a significant drop in total pay in the remuneration report and this related to presentational issues around pensions.

AC220515/050

AC220515/051

AC220515/052

AC220515/053

- Simon Williams noted that his attendance was inconsistent in terms of the table and the narrative and it was agreed this would be checked. AC220515/054
- Peter Collis asked that his biography be reviewed as a reference to a position that he has held for last ten years was inaccurate. AC220515/055

The Annual Report and Accounts were AGREED subject to the need to make minor (non material) changes and if possible resolving the issues with the External Audit Opinion. AC220515/056

10. Counter fraud report AC220515/057

Andrew Morley spoke to this and explained the rationale for handing over his role to Greg Bezudenhout. This was due to Counter Fraud standards which meant that he needed to avoid a conflict of interest with provider work. Greg's SW London team would therefore be taking over Surrey CCGs. AC220515/058

- The annual report had been circulated and was noted. AC220515/059
- The fraud risk assessment was noted. An assessment had been made and RAG ratings allocated. AC220515/060
- There was a specific need to follow up CHC recommendations. AC220515/061
- PHBs were inherently high risk but low in value and thus the potential impact was relatively low. AC220515/062

Prescribing risk was amber. There had been a new issue at one SDCCG practice and this was now subject to further investigation but there was a significant issue behind this with blank prescriptions being given out. NHS England were taking rapid action to review the practice's controls. AC220515/063

Miles Freeman noted the seriousness of this issue and the implications for professional standards. Dr Williams expressed surprise that this was technically possible given printer settings in place for printing prescriptions. He queried whether there was a hardware solution, and Matthew Knight said he had asked for this to be included in the GPIT budget for this year. AC220515/064

Control over expenses was included in the forward work. AC220515/065

- 4.2 in the report – this should be green not amber. AC220515/066
- 4.4 pre-employment checks – there was a need to improve the governance in this area and Matthew Knight was pursuing this internally with the Head of HR. AC220515/067

Counter fraud work plan – this had been discussed with Matthew Knight and proactive work planned in line with the previous year but with ten extra days for provider profile reviews. There was a counter-fraud workshop day on 15th July that Matthew Knight was attending. AC220515/068

<p>Matthew Knight noted that the new Counter Fraud standards were highly onerous for providers and there was a lack of skilled and qualified Counter Fraud experts that could cause a red audit rating for the CCG. Andrew Morley agreed and said that the CCG had 106 providers with a contract value of over £200k and that requesting and assuring their crime profiles would be significant. Matthew Knight noted there was no easy answer to this and requested specific updates at future meetings.</p>	AC220515/069
<p>Alison Pointu asked about private providers and it was noted that there was no specific training for them in the new requirements. The number of care homes and AQPs made this a significant issue for the CCG.</p>	AC220515/070
<p>Andrew Morley was thanked for all his hard work for the committee over the last two years.</p>	AC220515/071
<p>11. Internal audit report - QIPP</p>	
<p>This was noted as having limited assurance. CM noted the challenges of the QIPP target going forward and the improvements that had been put in place with a refreshed Programme Management Office and he felt the evidence base this year would be much stronger than when the audit took place.</p>	AC220515/072
<p>Wider best practice had been reviewed and the input from Deloitte was also noted. This made 2015/16 look much more positive.</p>	AC220515/073
<p>James Thirgood noted that the QIPP forward view and infrastructure was much improved this year and Peter Collis agreed. He would be very surprised if these did not yield better results.</p>	AC220515/074
<p>Matthew Knight said that he felt the evidence supported limited assurance and an action plan was now in place.</p>	AC220515/075
<p>12. External audit update</p>	
<p>There was no further update from external audit.</p>	AC220515/076
<p>13. Assurance framework and risk register</p>	
<p>The risk register summary was noted. There had been little significant movement since the last Governing Body. Justin Dix noted that he was meeting with Executive Directors and Heads of Service in the Coming weeks to update the register.</p>	AC220515/077
<p>The assurance framework would be updated for the next Governing Body meeting.</p>	AC220515/078
<p>14. Update on policies</p>	
<p>A summary was tabled. There were a significant number of amber policies (due for renewal by the end of the calendar year) and several red (overdue for renewal). It was agreed this would be a priority for the next meeting.</p>	AC220515/079
<p>15. Audit committee annual report</p>	

This was reviewed.	AC220515/080
<ul style="list-style-type: none"> • Peter Collis noted the need to change the list on Page 3 as this was not consistent with the year. 	AC220515/081
<ul style="list-style-type: none"> • Para 6 on P5. Reword around Gavin Cookman's departure and replacement being recruited. 	AC220515/082
Subject to these minor changes the report was AGREED.	AC220515/083
16. Governing Body evaluation	
It was noted that the evaluation was going ahead and should take place shortly. Individual committee members may be contacted for interviews.	AC220515/084
17. Tender waiver	
This was noted. There may be a need for a future procurement if the support to the PMO was to continue. Peter Collis asked the committee to note this was only a four month appointment.	AC220515/085
18. Any other business	
It was noted that the letter of representation from the CCG to Grant Thornton had been drafted – this also needed dating and signing next week. It was a standard letter.	AC220515/086
19. Matters to be drawn to the attention of the governing body	
<ul style="list-style-type: none"> • Annual Report and Accounts sign off including internal and external audit opinions 	AC220515/087
<ul style="list-style-type: none"> • IG audit position at the time of writing 	AC220515/088
<ul style="list-style-type: none"> • Financial planning with Grant Thornton 	AC220515/089
<ul style="list-style-type: none"> • New counter fraud arrangements 	AC220515/090
<ul style="list-style-type: none"> • GP prescribing 	AC220515/091
20. Dates of future meetings	
The next meeting would be on the morning of the 10 th July.	AC220515/092

Annual Report of the Audit Committee for 2014/15

1. Introduction

As its Chair, I have overseen the work of the Audit Committee during the last year and believe that it has been effective in discharging its terms of reference. This has however been a very busy year and there were a number of emerging issues that mean that the control environment of the CCG will need to develop accordingly.

2. Regulatory environment

The CCG is authorised by NHS England and the role of the Audit Committee is based on best practice under the UK corporate governance code. This is reiterated in the manual and guidance for Annual Reports and Accounts issued each year by the Department of Health.

The Audit Committee has worked closely with both internal and external audit to ensure that it achieved as much objectivity and factual clarity as possible when describing its work during the year. The annual audit plan identified key areas of scrutiny which were reported to the committee.

3. Significant issues that the committee has considered during the year

The following is a summary of the key issues that I as chair would like to bring to the attention of the Governing Body for the year in question. The minutes of the committee are public and available on the CCG web site should anyone wish to understand the detail of these issues.

Key concerns

The key concerns and activities of the committee were in the following areas:

- Advising the CCG's management on how to respond to the emerging financial pressures from December 2014 that led eventually to a £10.7m deficit. Consequent to this, the CCG's assurance by NHS England was withdrawn on the 26th March and the CCG was "non-assured"
- Continuing Health Care, where it has been necessary to pursue improvements in reporting. Significant progress was made on this during the year.

- The effectiveness of the South CSU, particularly in the areas of HR, contracting support, and business intelligence. This contract was terminated and a new CSU took over in October 2014, with HR services being bought in-house. The committee was particularly concerned at the lack of assurance regarding Disclosure and Barring arrangements and has given detailed feedback on this issue.
- Arrangements for conflicts of interest and hospitality and gifts, work which will be ongoing in 2015/16 as the CCG's responsibilities change particularly in the area of primary care. The Committee is particularly aware of the need to manage conflicts around Any Qualified Provider (AQP) contracts.
- Improving the CCG's risk management systems, developing stronger approaches to risk appetite and risk maturity.

Audit work

The Committee received audit reports with **significant** assurance in the following areas:

- Performance Reporting Review; contract management and monitoring; annual review of key finance systems; governance arrangements for safeguarding adults; governance arrangements for safeguarding children.

The Committee received audit reports with **reasonable** assurance in the following areas:

- Business continuity and Emergency Planning; Patient and Public engagement; Governing Body Assurance Framework and Risk Management; corporate governance.

The Committee received audit reports with **limited** assurance in the following areas:

- CHC payments and contracts

There were no reports of no assurance.

Two audits (QIPP and Information Governance) had not been completed at the end of the year.

Counter fraud

The committee received regular updates on Counter Fraud at each meeting, and worked with counter fraud to promote an environment where fraud is minimised. Some cases of actual fraud and prosecution were identified in the wider environment and reviewed in the committee for lessons learnt.

The counter fraud service has worked closely with the Continuing Health Care team on individual funding.

Annual Report and Accounts

The committee signed these off under delegated authority from the Governing Body in May 2014 on an unqualified basis. For a new organisation this was a successful conclusion to its first year of operation and the reports were publicly well received.

Financial Recovery

As the CCG's financial position worsened in the autumn of 2014, the committee focused on advising on additional governance arrangements (such as the creation of a finance and performance committee, and the operational arrangements for programme management) that would enhance the operational and strategic oversight of the CCG's long term future.

4. Relevant policy areas

During the year the Committee agreed a revised hospitality, gifts and inducements policy and advised on risk management and risk maturity to support a revised risk management strategy. It also took an overview of relevant policies. The committee expressed concerns during the year about the effectiveness of policy dissemination and training, and in particular would recommend more training on risk management for staff throughout the organisation.

Other policies agreed by the committee were: fraud bribery and corruption policy; gifts and hospitality policy; standards of conduct policy; policy for policies and procedural documents.

5. Access to relevant and timely information

The committee was satisfied that it had access to the information it required during the year, with the exception of timely information from South CSU relating to Disclosure and Barring.

6. Working with other committees

The committee was greatly assisted when the chair of the Quality Committee joined it. The chair of the Remuneration and Nominations Committee has been a member of the committee since its inception. The Chief Officer, who chairs the Executive Committee, has also attended regularly. This means that there is a very close connection between the committees and they work cohesively as opposed to in silos. It is common for the committees to recommend actions to each other as appropriate. However, the Chair of the Remuneration and Nominations Committee left the CCG on the 31st March.

7. The system of Internal Controls and underlying risks and issues

The committee has regularly reviewed the assurance framework and risk register and, together with the policies is generally satisfied that internal controls are fit for purpose. The reasonable assurance indicated through audit reports in this area is felt to be appropriate in that it shows systems are sound but allows room for development and growth.

8. Relationships with Auditors

The CCG has worked effectively with Internal and External Audit both on planned work in the annual audit plan and on the production of the Annual Report and Accounts.

The external auditors undertook one item of non-audit work for the CCG during this financial year, which was advice on payroll taxation issues. This was within the requirement that non audit work should not exceed 50% of the value of audit work.

9. Evaluation of the effectiveness of the committee

The committee reviewed its effectiveness through a survey of members and regular attenders (including auditors and counter fraud). This affirmed that in general terms the meetings and processes were effective. The outputs are attached as an appendix. In broad terms the committee is felt to be effective, but with developments needed particularly in terms of feedback to committee members and developing them in their role.

10. Proposals for the coming year

It is clear that financial sustainability will be a key theme over the next three years, as will developments in primary care. In this respect there will be two important new committees to service, and a greater engagement with NHS England, so the Audit Committee believes governance capacity is something that ought to be reviewed by the Executive.

	Response rate	Clarity of purpose	Overall fit	Value - assurance and decision making	Papers	Up to date Terms of Reference	Recording and ownership of actions	Follow through and closure of actions	Meeting scheduling and flexibility	Appropriate membership	Effectiveness of chair	Attendance and engagement	Management of conflict of interest	Appraisal and feedback	Overall score
Quality committee	80%	7.1	7.1	7.8	6.3	6.25	8.6	7.5	8.4	7.3	7.1	6.75	8.4	5.8	7.3
Executive committee	64%	8.4	8.4	8.4	6.7	7.1	8.7	8.1	8.4	8.1	7.9	8.7	8.3	8	8.1
Audit Committee	73%	8.1	8.1	8.3	8.1	8.1	8.8	8	8.1	8.6	8.8	8.3	8.9	6.4	8.2
Remuneration and Nominations Committee	71%	7.8	8.0	8.0	7.0	8.0	8.2	7.2	7.4	8.2	8.2	8.8	9.4	6.2	7.9
Governing Body	78%	7.9	8.3	8.4	7.8	7.5	8.6	7.9	8.4	8.3	8.6	8	8.9	7.4	8.2

	Positive score (>80%) not a priority for action
	Good Score (60-79%) indicates some areas for action
	Low score (<60%) needs rapid follow up and probable action