

**Audit Committee**

Minutes of the meeting held on 23 April 2019 at 09:30

in Room 3, Abell House, The Slade

Horspath Driftway, Headington, Oxford OX3 7JH

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| **Present[[1]](#footnote-1):** | **BOD 70/2019**  (Agenda item: 19(c)) |
| John Allison | Non-Executive Director (the **Chair/JA**) |
| Chris Hurst | Non-Executive Director (**CMH**) |
| Aroop Mozumder | Non-Executive Director (**AM**) – *deputising for Lucy Weston* |
| Lucy Weston | Non-Executive Director (**LW**) – *part meeting* |
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| **In attendance:** | |
| *External Audit – Grant Thornton UK LLP:* | |
| Laurelin Griffiths | External Audit - Engagement Manager, Grant Thornton (**LG**) |
| *Internal Audit – PwC LLP:* | |
| Sasha Lewis | Internal Audit, Director and Engagement Lead, PwC (**SL**) |
| Alice Wainwright | Internal Audit – Engagement Manager, PwC (**AW**) |
| *Counter Fraud – TIAA:* | |
| Gareth Robins | Counter Fraud – Senior Counter Fraud Manager, TIAA (**GR**) |
| *Oxford Health NHS FT:* | |
| Jane Kershaw | Head of Quality Governance (**JK**) – *part meeting* |
| Mike McEnaney | Director of Finance (the **DoF/MME**) |
| Kerry Rogers | Director of Corporate Affairs & Company Secretary (the **DoCA/CoSec /KR**) |
| Michael Williams | Financial Controller (**MWi**) – *part meeting* |
| Hannah Smith | Assistant Trust Secretary (Minutes) (the **ATS/HS**) |
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The meeting followed a private pre-meeting between the Committee members and the Internal and External Auditors and Counter Fraud.

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| **1.** | **Welcome, Apologies for absence and confirmation of any items for Any Other Business** |  |
| a | Apologies for absence were received from: Bernard Galton, Non-Executive Director and Committee Chair; and Stuart Bell, Chief Executive (regular attendee but not a member). |  |
| **2.**  a  b  c  d | **Minutes of the meeting held on 19 February 2019**  The Minutes of the meeting were approved as a true and accurate record.  ***Matters Arising***  The Chair expressed his dissatisfaction at the number of actions which were marked as on hold.  **Item 2(b) Joint membership of Audit Committee and Quality Committee**  The DoCA/CoSec reported that the action (for the future membership of the Audit Committee and the Quality Committee to be considered to ensure that there was a joint member of both committees) was on hold pending discussions through the Board Development Working Group and further to an update to be provided to the Board Seminar in July. Aroop Mozumder noted that the expectations upon the joint member of both committees should be considered as it was onerous to absorb the content of the papers for both the Audit Committee and the Quality Committee. The Chair requested that an update be provided earlier than the July Board Seminar, if a decision was made in relation to the joint membership.  The Committee confirmed that the following items from the 19 February 2019 Summary of Actions:   * were on hold to be progressed: 2(c) Terms of Reference to be updated; 2(h) update to be provided on progress against recommendations from the Internal Audit review of the IT Environment; 7(f) the Internal Audit Plan 2019/20 to be brought back; and 8(e) update on bank mandate/’push payment’ fraud to be provided in the next regular Counter Fraud progress report; or * had been completed, progressed or were on the agenda for the meeting: 2(i) Counter Fraud and Corruption Policy and Response Plan amended; 6(c) Internal Audit progress report now includes a Key Performance Indicator around fieldwork being commenced on time; 6(e) internal Audit review of Corporate Governance & Risk Management revised and appended; 7(i) Internal Audit Plan 2020/21 scheduled for initial discussion in December 2019; and 12(b) Board Assurance Framework on the agenda. | **Action**  **KR** |
| **DRAFT ANNUAL REPORT & ACCOUNTS AND SUPPORTING DOCUMENTS** | | |
| **3.**  a  b  c  d  e  f  g  h  i  j  k  l  m  n  o  p  q  r  s | **Draft Financial Statements and Accounts**  The DoF and the Financial Controller presented: (i) the Draft Annual Statutory Accounts – Year Ending 31 March 2019; (ii) a high level analytical review of the 2018/19 Annual Accounts Primary Financial Statements illustrating variance compared to the 2017/18 Annual Accounts ((i) and(ii) together forming Paper AC 14/2019); and (iii) the Draft FY19 Going Concern Statement at Paper AC 15/2019.  The DoF referred to the high level review and highlighted the following in relation to Income and Expenditure during FY19 compared to FY18:  *Statement of Comprehensive Income*   1. the increased deficit for FY19 compared to FY18; 2. the reduction in Finance Expenses further to a decrease in Private Finance Initiative (**PFI**) finance costs following the adoption of an updated PFI accounting model; 3. there were no gains (or losses) to account for arising from any property transfers during FY19 (by comparison in FY18 there had been the gain from the transfer of the Slade site);   *Analytical review of Operating Income*   1. the decrease in cost and volume contract income further to reduction in Eating Disorder inpatient activity/lower bed usage; 2. the increase in block contract income further to benefits from New Care Models; 3. the reduction in other clinical income from mandatory services further to a reduction in cost per case income; 4. additional Research & Development income from the Biomedical Research Centre; 5. additional Learning & Development income; 6. increased turnover from Oxford Pharmacy Store (**OPS**) which had helped to improve the position on other contract income; 7. unachieved Sustainability and Transformation Funding (**STF**)as the Trust had only achieved STF in the first quarter of FY19. However, he reported that the Trust had last week been informed that it would receive a share of unallocated Provider Sustainability Funding (**PSF**) of approximately £1.1 million which would strengthen the cash position; the Trust had been notified too late for this to be included in the report to this meeting. He noted that the PSF allocation was a positive reflection upon the Board’s decision to agree the FY19 Control Total, even under difficult circumstances;   *FY19 Analytical Review of Expenditure*   1. the increase in staffing and Executive Director costs; he noted that this reflected the national Agenda for Change pay increase as well as the expansion of services; 2. the increase in costs of clinical supplies and services, which included Residential Care and Out of Area Treatments/Placements (**OATs/OAPs**), both of which had been reported through the year as consistently overspent. The increase had also been contributed to by spend on equipment in the Children’s Integrated Therapy service following the ‘never event’ in the service; and 3. the net impairment gain following revaluation of the estate.   Aroop Mozumder referred to the reduction in cost and volume contract income (further to the reduction in Eating Disorder bed usage) and the increase in block contract income. He noted that the Trust had been disadvantaged under the cost and volume contract model as empty beds had cost the same under that model as full beds whereas this would not be an issue under block contracts. The DoF concurred that the Trust had incurred the same costs for the services under cost and volume contracts when beds were empty as when beds were full; the cost was approximately £400,000. This was a financial management challenge and the Finance Team was working with services on why these gaps/empty beds had arisen especially during a period when demand for services exceeded supply. The DoF highlighted the importance of heads of service being accountable for delivery on performance measures.  Chris Hurst referred to the increased cost of OATs/OAPs (part of the costs of clinical supplies and services) and noted that although the difference/increase between FY19 and FY18 was set out as £1.2 million, reviews of in-year financial performance had indicated even larger growth in spend. The DoF confirmed that significant work had taken place in-year to target reduction in OATs/OAPs spend therefore the final amount was an increase of £1.2 million.  The DoF and the Financial Controller highlighted the following in relation to the balance sheet/Statement of Financial Position:  *Statement of Financial Position*   1. the increase in value of Property, Plant and Equipment; 2. the increase in inventories further to OPS’ contract with NHS England to provide two new stock lines; 3. the decrease in borrowings, including through reduction in PFI liability and adoption of an updated PFI accounting model; 4. the increase in Public Dividend Capital further to funding received for Global Digital Exemplar status and from the Department of Health to invest in Places of Safety;   *Trade receivables and other receivables*   1. overall following the adoption of IFRS (Internal Financial Reporting Standards) 15, receivables had only increased by £72K; 2. VAT receivables had increased as two months’ VAT was outstanding, as opposed to just one month at the end of FY18; 3. the increase in corporation and other taxes receivable was mainly due to the apprenticeship levy drawdown in arrears; and   *Trade and other payables*   1. the increase in accruals due to unresolved invoice disputes with NHS Property Services, unbilled residential care activity and the reclassification of a long term liability.   The DoF took the meeting through the Draft Annual Statutory Accounts. Chris Hurst referred to note 3.1 (income from patient care activities – by nature) and asked what was represented by the line on clinical income for the secondary commissioning of mandated services. The DoF replied that this related to Out of Hours services, not included on a block contract.  Aroop Mozumder referred to the Statement of Comprehensive Income and asked what was represented by the FY18 gain arising from transfers by absorption. The DoF replied that this was the transfer of the Slade site, as referred to at item 3(b)(iii) above. Aroop Mozumder commented upon the favourable impact that this transfer had had upon the FY18 position.  *Lucy Weston left the meeting*.  Chris Hurst referred to the relationship between the cash position and trade creditors (payables) in order to test going concern assumptions. He noted that although the cash position between FY19 and FY18 had been broadly steady, there had been an increase in trade creditors of approximately £8 million. Therefore, if trade creditors had been held at the FY18 year-end then this would have resulted in a greater cash outflow and the FY19 year-end position could be £8 million lower. He also referred to the £6 million gain in FY18, as a result of increase in creditors, and noted that over a 24 month period, creditors had generally increased. With the increase in accruals referred to at item 3(e)(viii) above, he noted the importance of taking a cautious stance on the cash position, especially going forwards. The DoF added that the cashflow forecast developed with the FY20 Financial Plan would take account of this.  Chris Hurst asked:   * if there had been any changes in accounting policies or practices which had influenced the preparation of the Accounts; * if there were any areas of breach or non-compliance, for example in relation to financial statutory duties, which should be explicitly stated; and * whether there were any other significant matters to draw to the Committee’s attention, such as any contingent liabilities or gains or other matters which could be potentially of significance during the coming 12 months.   The DoF confirmed that there were not, in relation to all three of the questions posed. He added that the point on ‘any other significant matters’ had separately already been considered and discussed and there were none to highlight.  The Committee considered the Draft Going Concern Statement which included, at Appendix 1, a review of key issues and risks to support the going concern basis for preparation of the Accounts. The Committee was being asked to take a view of the ‘foreseeable future’ including, but not limited to, the next three financial years, and certainly no less than one year from the date of signing the statement i.e. from the end of May 2019 and until May 2020, although most of the evidence presented looked only as far as the FY20 financial plan. The DoF highlighted the available options: going concern with no uncertainties; going concern with some uncertainties which would need to be disclosed in the Accounts; or not a going concern.  The Chair commented upon the reliance in Appendix 1 on the FY20 Financial Plan for evidence of action, as ‘a plan’ was not yet ‘action’. The DoF replied that it was a detailed plan which set out the actions that were already progressing in order to maintain sustainability. The Chair referred to the financial reforecast which had taken place during FY19, despite the previous year FY19 plan, and noted that this could happen again. The DoF replied that there could always be volatility which could impact the plan for the year but that, following careful review of the risks and the opportunities, a prudent approach had been taken. The Chair noted that there were enough risks and uncertainties in the FY20 Financial Plan to warrant consideration of the option of the more qualified going concern statement which may refer to some uncertainties to be disclosed.  Aroop Mozumder referred to Appendix 1(3) and asked about the risk of unforeseen spend which might incur a penalty or any need to borrow against operational costs. The DoF replied that borrowing was only likely if required for capital investment, rather than operational costs. There were no plans to increase borrowing in the next 12 months. Large capital investment projects had been identified and projects such as the Learning Disability Low Secure Unit (**LD LSU**) and the Child & Adolescent Mental Health Service Psychiatric Intensive Care Unit (**CAMHS PICU**) were already funded directly by capital from NHS England. The cash forecast to the year end for FY20 also did not anticipate the requirement for borrowing.  Chris Hurst emphasised the importance of the consideration of going concern status being informed by review of:   * cash and control over the level of creditors and any cash outflow (as considered at item 3(h) above); * assumptions over the FY20 Financial Plan. It had been positive that the Trust had taken a view early in FY19 to reforecast against the original FY19 Financial Plan. Given what had been learned from the FY19 reforecast, it may also be possible to place more confidence in the FY20 Financial Plan. Going forwards, the Trust needed to have confidence in its ‘ongoing’ concern position and be able to differentiate between ongoing and non-recurrent items; * capacity and demand risks and whether the Trust had adequate resources to meet activity levels. If demand could not be managed then it would be increasingly difficult to control costs. Management of activity levels would therefore be key to management of operational costs; and * capital expenditure combined with recruitment and retention risks. He noted that although there was capital funding for the LD LSU and CAMHS PICU projects, there could still be challenges to staff those projects once the new units were operational and if agency or temporary staffing was required then this could increase running costs.   The meeting discussed capacity and demand pressures and the Trust’s appetite to manage activity down to the level of available resources. Management of activity and operating costs could be a way of testing the most realistic position to recommend on going concern status. However, it was recognised that there may be further work to do to provide assurance that sufficient work was taking place to constrain activity levels but with appropriate clinical scrutiny and oversight to ensure that services remained safe to deliver care and that commissioners and system partners understood and/or supported this. The situation may need to be kept under review by the Board as it may not be possible to provide definitive assurance just for May 2019 but which would be effective for the entire period to May 2020.  The DoCA/CoSec reminded the meeting that although a contingency reserve had been included in the FY20 Financial Plan, from a going concern perspective there may also need to be assurance that the reserve of £2.5 million was a sensible construct.  The Committee agreed that the Finance & Investment Committee meeting on 09 May 2019 should consider the supporting information around the cashflow forecast, FY20 anticipated receipts and payments, activity management and the contingency reserve in more detail so that, by the meeting of this Committee on 21 May, there could be more clarity as to whether the Trust was clearly a going concern or a more qualified going concern with uncertainties.  The Chair invited Laurelin Griffiths to comment. Laurelin Griffiths confirmed that the External Audit would consider the FY20 Financial Plan and the assumptions within it as well as any estimates around growth. She explained that the Accounts would only need to include information about uncertainties which could impact upon going concern if they were material.  The Chair summarised that:   * further action would be taken through the Finance & Investment Committee to consider the relevant supporting information which would provide more clarity on whether the Trust was clearly a going concern or a more qualified going concern with uncertainties, as discussed at items 3(m)-(p) above; and * it was recognised that management of activity levels (but with appropriate clinical scrutiny and oversight to ensure that services remained safe to deliver care and that commissioners and system partners understood and/or supported this) may need to be kept under review by the Board as it may not be possible to provide definitive assurance just for May 2019 but which would be effective for the entire period to May 2020.   **The Committee:**   1. **RECEIVED AND APPROVED the Draft Annual Statutory Accounts and the high level analytical review of the 2018/19 Annual accounts Primary Financial Statements (Paper AC 14/2019) and, subject to the comments above, AGREED that these should be submitted to NHS Improvement; and** 2. **noted that the Draft Going Concern Statement (Paper AC 15/2019) was subject to underlying assumptions being considered further by the Finance & Investment Committee meeting on 09 May 2019.**   *The Financial Controller left the meeting*. *The meeting took a short break at 11:10 and resumed at 11:17. Jane Kershaw joined the meeting.* | **MME/CMH** |
| **4.**  a  b  c  d | **Draft Annual Report 2018/19 including Annual Governance Statement**  The DoCA/CoSec presented the report at Paper AC 16/2019 which set out the Draft Annual Report including the Annual Governance Statement on the system of internal control. The Draft Annual Governance Statement set out that there had been no significant control weaknesses during FY19. She noted that External Audit had provided benchmarking data against the previous year’s annual reports and annual governance statements from other organisations; the Trust’s Annual Governance Statement was not an outlier on length compared to others on this benchmarking and work was taking place to reduce the overall length of the Annual Report.  The Chair commented that he agreed with the Draft Annual Governance Statement and the evidence and examples cited therein. The Committee reviewed the Draft Annual Governance Statement and suggested that:   * more references be included to the context in which the Trust operated (of a system facing increasing risk around its ability to manage levels of patient demand and activity); * arrangements to secure Value For Money (**VFM**) refer not only to Cost Improvement Plans but also acknowledge the work of the Finance Team to develop Service Line Reporting, which may become a more effective way to drive improved VFM; * the statement on p.14 be reviewed in relation to continuing work “to enhance safety to ensure that across all Trust services the same high standards are observed”. Whilst the Trust may not yet have achieved the same high standards everywhere, the key point may be that the Trust was working to improve. The Committee noted, in evidence, that it had been reassuring that more Serious Incidents reports had been presented to the Board in private session and more reporting provided on follow-up against actions; and * the reference to the two ‘never events’ on p.14 be expanded so that brevity did not imply complacency.   The Committee reviewed the rest of the Draft Annual Report and suggested:   * the description on p.13 of the Trust’s values clarify that these were aspirational and that the Trust was constantly learning and improving. It was noted that values could be aims to strive to reach and embed; * the strategy section on p.14 be checked to ensure that the approved strategy had been included and, if possible, to include more evidence of achievement; * the biographies of the Board be updated in line with the most recent version of the Register of Directors’ Interests; and * the draft section on committee attendance/chairing records be updated. It was noted that Bernard Galton had chaired the Charity Committee meetings in December 2018 and February 2019.   **The Committee noted the report, supported the direction of the narrative and, subject to comments above, confirmed that there were no significant control weaknesses to highlight.** | **KR**  **KR** |
| **5.**  a  b  c | **Draft Quality Account 2018/19 and Quality Improvement Plan 2019/20**  Jane Kershaw presented the report Paper AC 17/2019 which set out a draft annual report on the quality of care provided by the Trust and progress against the Trust’s quality objectives. Against the 12 quality objectives which had been set for 2018/19, the Trust had fully achieved 8 and partially achieved 4. She confirmed that this draft had also been shared with external stakeholders for comments, including commissioners and scrutiny committees in Oxfordshire and Buckinghamshire.  The Committee reviewed the Draft Quality Account and the Quality Improvement Plan and suggested:   * the supporting information to Quality Priority 3 (to continuously and reliably improve patient safety) be reviewed with more detail provided on the assurance provided that had assisted the Trust to an overall ‘Good’ rating with the Care Quality Commission; and * the reference on p.6 to the opening of the dedicated stroke rehabilitation unit be reviewed.   **The Committee noted the Draft Quality Account and Quality Improvement Plan.** | **JK** |
| **AUDIT REPORTS** | | |
| **6.**  a  b  c | **External Audit progress report**  Laurelin Griffiths presented the report AC 18/2019 which provided an interim update on the progress of the External Audit and a sector update.  The Chair noted that the sector update was useful but asked about the value of an interim report on the External Audit. The DoF replied that it could be useful in principle to ensure that the Committee could have early notice if the early stages of the External Audit identified areas of concern.  **The Committee noted the report**. |  |
| **7.**  a  b  c  d  e | **Internal Audit progress report**  Sasha Lewis presented the report AC 20/2019 which provided an update on progress against the 2018/19 Internal Audit Plan. She confirmed that aside from the Partnership Working review, all reviews had been completed. The review of follow-up actions had also been completed and the draft report was with the DoF for review.  Alice Wainwright presented the recently completed Internal Audit reviews to the meeting in relation to: (i) the Buckinghamshire Directorate (‘high’ risk rating); and (ii) Corporate Governance & Risk Management (rating revised from ‘medium’ to ‘low’ risk further to additional supporting information provided to evidence triangulation of key themes and areas of risk).  The Committee commented positively upon the review of the Buckinghamshire Directorate and requested that the DoF ensure that the findings were considered by the Executive, given that the review had been very recently released and there had not been time for the Executive to review before presentation to the Committee. The Committee raised concerns about:   * the high risk finding of no formal capacity planning process or policy in place – this heightened the risk that demand would not be met and hindered ability to have constructive conversations with commissioners and other stakeholders around capacity and demand; and * the medium risk finding around missing census data which therefore hindered Safer Staffing processes and could indicate a data quality issue which may impact upon Safer Staffing reporting.   Sasha Lewis noted that the Internal Audit Plan 2019/20 had been deferred pending consideration of the Buckinghamshire Directorate review. Given positive comments received, the Internal Audit Plan 2019/20 would include a further directorate review.  **The Committee noted the report and that the Executive would consider the Buckinghamshire Directorate review.** | **MME** |
| **8.**  a  b | **Draft Internal Audit annual report 2018/19 including draft Head of Internal Audit opinions**  Sasha Lewis presented the report AC 19/2019 which provided a draft Internal Audit annual report, pending completion of all 2018/19 reviews. The report also included two potential draft Head of Internal Audit Opinions; the final opinion would be concluded upon finalisation of all 2018/19 reviews.  **The Committee noted the report and that the final Internal Audit annual report and Head of Internal Audit opinion would be presented to the next meeting in May 2019.** |  |
| **9.**  a  b  c | **Counter Fraud annual report 2018/19**  Gareth Robins presented the report AC 21/2019 which summarised Counter Fraud work for FY19. The Trust’s self-assessment against the NHS Counter Fraud Authority’s (**CFA**) Standards for Providers had been completed in draft with an overall ‘green’ rating, pending final confirmation from the DoF and the Committee Chair. The meeting acknowledged that the Committee Chair had reported issues with accessing the CFA’s automated system.  Gareth Robins referred to section 2.5 in the report and that the only part of the self-assessment which had been ‘amber’ rated was in relation to 3.1 (Key Principle 3: Hold to Account) on policy reviews. He explained that a significant amount of resource would be required to improve to a ‘green’ rating on this measure. The meeting acknowledged this and that it was acceptable that this was the only area which was not currently ‘green’ rated.  **The Committee noted and received the Counter Fraud annual report**. |  |
| **10.**  a | **Any Other Business**  The Chair noted that the remaining two reports should be brought back to the next meeting in May when there may be more time to consider: (i) Single Action Tender Waivers at Paper AC 22/2019; and (ii) Board Assurance Framework at Paper AC 23/2019. | **HS** |
| The meeting was closed at: 12:10 | |  |
| **Date of next meeting: Tuesday, 21 May 2019 09:30-12:00** (private pre-meeting from 09:00) | |  |

1. The quorum is 3 members (all Non-Executive Directors) and may include deputies. The Trust Chair shall not be a member of this Committee but is invited to attend meetings in April and May for discussion of the draft Annual Report & Accounts. [↑](#footnote-ref-1)