

AUDIT COMMITTEE

Minutes of the Meeting of the STH AUDIT COMMITTEE held on Thursday 26th May, 2011, in the Large Committee Room, Weston Park Hospital

PRESENT: Mr. V. Powell (Chair) Professor A. P. Weetman

IN ATTENDANCE:

Sir Andrew Cash	Mr. N. Priestley
Miss S. Coulson	Mr. N. Riley
Mr. A. Challands	Mr. I. Warwick
Mr. J. Idle	Miss J. Wright
Mr. J. Goodison	Mr. M. Wright
Mr. D. Murray	

APOLOGIES: Mr. J. Donnelly Ms. S. Harrison
Ms. V. Ferres

AC/11/27

Annual Report and Accounts 2010/11

(a) **Statutory Financial Statements: Introduction and Overview**

The Director of Finance stated that, in line with the Board's delegated authority, the purpose of the meeting was for the Audit Committee to formally approve on behalf of the Board of Directors the Statutory Financial Statements 2010/11, the Annual Report (including the Quality Report) and to approve the various certificates and letters which were part of that process:

The Accounts would be submitted to Monitor by 7th June, 2011, and the published Annual Report and Accounts would then be laid before Parliament on 30th June, 2011.

(b) **Presentation of Draft Accounts**

The Director of Finance gave a presentation (copy attached to these minutes) on the contents of the Accounts for 2010/11 which had been prepared in compliance with statutory requirements. He explained that there were no significant technical changes in the accounts for 2010/11. However there were some minor technical changes as set out below:-

- During the last year the Trust was required to re-value all its assets and the full year impact of that has been applied to the 2010/11 Accounts.
- Minor changes around how impairment charges were charged.
- There was a requirement to declare staff exit packages in 2010/11
- Private patient cap definition change

He explained that the contract negotiations with the Sheffield PCT had been extremely difficult and as a consequence the Trust had experienced quite a significant income loss throughout the year.

Overall the conclusions were:

- Satisfactory results
 - Small surplus
 - Significant Capital Investment
 - Stable Working Capital Position
- Monitor Risk Rating 4
- No issues with Private Patient Cap or Prudential Borrowing Limit
- Very challenging future:
 - Major P&E requirement
 - PCT Activity Reductions/Lack of Investment
 - Growing demands

(c) Presentation of:

(i) Annual Report and Accounts (including Quality Report)

The Trust Secretary explained that the Annual Report and Quality Accounts had been prepared in accordance with the Annual Reporting Manual 2010/11 issued by Monitor which was a highly prescriptive document about how annual reports should be produced. The Quality Report was incorporated within the Annual Report and was much improved from last year in terms of engagement and sharpness.

He explained that as a consequence of the prescriptive nature of the document it was not an easy read. Although he pointed out that the “Year in View” section was more user friendly and the plan was to produce another document aimed at the public which would include the “Year in View” section.

The Annual Report was presented to the Board of Directors on 18th May, 2011. Since then and since circulating the report to Audit Committee members a number of non material changes had been made and there were still a few to be made.

The following points were made:-

- As agreed last year the attendance of Non Executive Directors at meetings of the Governors’ Council should not be included as they were not members of the Council.
- Page 81 – Contract details – need to check the contract date and expiry term. The term should relate to the retirement age of the respective Director.

The Audit Committee **APPROVED** the Annual Report and Accounts subject to the above amendments and the non material changes still to be made. Mr. Powell would sign off the final version on Friday 27th May, 2011.

(ii) Statement on Internal Control (SIC)

Mr. Challands presented the SIC and explained that this was the last year the Trust would produce it as under Monitor's Annual Reporting Manual 2010/11 the Trust would be required to produce an Annual Governance Statement for 2011/12.

He explained that the Trust had chosen to keep the SIC for 2010/11 which had been reviewed and updated accordingly.

The SIC had been approved by TEG and the Chief Executive was happy to sign it.

The Audit Committee **APPROVED** the SIC.

(d) Internal Audit Service

(i) Internal Audit Annual Report 2010/11 including Head of Internal Audit Opinion Statement 2010/11

Mr. J. Idle, Head of Internal Audit, presented his written Annual Report 2010/11 circulated with the agenda papers (Enclosure C). He explained that the report contained:

- the Head of Internal Audit Opinion for 2010/11
- an overview of the risk exposure to the Trust
- the work undertaken by Internal Audit during 2010/11
- results on Performance Indicators for Internal Audit
- an overview of client perceptions of the service in 2010/11.

The Head of Internal Audit's opinion was that:

"Significant assurance can be given that there is a generally sound system of internal control, designed to meet the organisation's objectives and that controls are generally being applied consistently."

That opinion was based on the following:

- an assessment of the design and operation of the Assurance Framework and underpinning processes;
- an assessment of the range of individual opinions arising from risk based audit assignments, contained within the internal audit risk based plan that have been reported throughout the year. That assessment had taken account of the relative materiality of these areas and management's progress in respect of addressing control weaknesses;
- an assessment of the process by which the organisation received assurance on compliance with the CQC Essential Standards of Quality and Safety.

During discussions Professor Weetman asked if it was considered acceptable that the Trust had not had any A Graded Audit Reports. It was noted that the Audit Plan covered high risk areas and also included non-mandated audit areas which had been chosen because there was a high-risk that the Trust was underperforming in those areas. Therefore the Trust would not expect to see A's and B's for the initial audits for those areas. It

was felt that if the Trust was to receive A's and B's for audits it may suggest that it was avoiding the high risk areas.

The Audit Committee **RECEIVED** and **NOTED** the contents of the internal Audit Report for the Financial Report ended 31st March, 2011.

(e) External Audit Service:

(i) Progress Report

Mr. Warwick presented his progress report (Enclosure D). The key points to note were:-

- The audit fee had been increased by £5,338 to cover the cost of the review of the Trust's Quality Report and by £1,750 due to extra work being required by the National Audit Office on the Trust's consolidation schedules. The increased had arisen due to changes in Monitor's Code of Governance.
- The Letter of Engagement had been updated accordingly.
- Internal Audit had completed their systems audits and External Audit had maximised reliance on their work to provide an efficient audit to the Trust.
- The year end audit was started in advance of the accounts submission and had been completed other than closing requirements following the May Audit Committee.
- External Audit had reported to the Audit Committee in accordance with ISAs 260 and 265 – Communicating to those Charged with Governance and Management. The audit opinion was expected to be given on Friday 27th May, 2011
- A 'clean' limited assurance statement in relation to the Quality Report was expected to be issued on 27th May, 2011, and the detailed report would be finalised by 30th June, 2011.
- External Audit had reviewed the outcome of Internal Audit's work on the assurance framework to assist in forming a view on the quality of the Trust's governance and performance arrangements.
- External Audit had reviewed the processes which underpin the disclosures made in the Trust's Statement on Internal Control and had not identified any inconsistencies between those disclosures and the knowledge they had gained from their work.

The Audit Committee **RECEIVED** and **NOTED** the content of the progress report.

(ii) ISA 260 Report 2010/11 (Governance Annual Report)

Mr. Murray presented the Annual Governance Report (Enclosure E) and explained that it was a formal document which External Audit were required to produced each year for those charged with responsibility for governance which, on behalf of the Trust, was the Audit Committee.

He would report the Audit Opinion to the Governors' Council in September 2011.

The key points to note were:

- There were no material errors identified from the audit of the financial statements. The majority of amendments to the accounts were minor in nature or cosmetic e.g. related to improvements in the disclosure of information and did not need reporting to the Audit Committee.
- No matters had been identified to conclude that the Trust did not have in place adequate arrangements for securing economy, efficiency and effectiveness.
- No matters had come to his attention that caused him to believe that, for the year ended 31st March 2011, the content of the Quality Report was not in accordance with the NHS Foundation Trust Annual Reporting Manual.
- He reported that he planned issue an audit report including an unqualified opinion on the financial statements on 27th May, 2011
- The increase in Audit Fee as reported early associated with the work on the Trust's Quality Report.
- The content of the Quality Report had been reviewed to consider whether it had been prepared in line with the requirements set out in the NHS Foundation Trust Annual Reporting Manual and whether it was consistent with the other information sources set out in that guidance. He reported that the review had not led to any matters being identified that would cause him to believe that the Quality Report had not been produced in accordance with those requirements.
- Mr. Murray referred to the letter of representation (Appendix 2) circulated with the agenda papers which needed to be approved by the Audit Committee and signing by the Chief Executive and Director of Finance at the end of the meeting. He pointed out that there was one additional item included relating to investment companies, other than that item the letter was standard.

Mr. Murray thanked Mr. Priestley and his team for their help, hard work and professionalism in preparing the accounts.

Mr. Powell sought confirmation that the Trust was a 'going concern'. In response, Mr Murray explained that no issues had arisen from the audit of the accounts to suggest that the Trust was not a 'going concern' going forwards.

The Audit Committee:

- **CONSIDERED** the matters raised in the report before approving the financial statements;
- **NOTED** of the adjustments to the financial statements which were set out in the report;
- **NOTED** the limited assurance report on the Trust's Quality Report
- **APPROVED** the letter of representation on behalf of the Trust
- **NOTED** that the Governance Report would be presented to the Governors' Council in September 2011.

(iii) Letter of Engagement: to note

The Audit Committee **NOTED** the content of the Letter of Engagement (Enclosure F) circulated with the agenda papers. Mr. Murray confirmed that it was not necessary to present it to the Governors' Council.

(iv) External Assurance on the Trust's Quality Report

Mr. Warwick referred to his written report (Enclosure G) circulated with the agenda papers which set out the external assurance on the Trust's Quality Report. The report had to be submitted to Monitor by 30th June, 2011.

He explained that the report circulated to members contained some gaps, as at the time of circulation not all the testing had not been completed. He was now able to confirm that all the work had now been completed and no issues had been identified.

Overall he reported that the Trust had put considerable effort into improving its arrangements for the production of the Quality Report and strengthening the systems generating the performance information. The Trust had responded positively and promptly to External Audit's feedback on the draft Quality Report and had incorporated the recommendations in the final version. With the help of Internal Audit the Trust had begun the process of making sure the information systems that feed the Quality Report were fully documented.

The style and structure of the Quality Report was good and was a very effective balance between the Trust's desire to make the Quality Report easily accessible and the need to comply with Monitor and the Department of Health's requirements.

The Audit Committee **NOTED** the contents of the report and that it would be presented to the Governors' Council in September 2011.

(f) Approval of Accounts for Submission and Board Adoption

On behalf of the Board of Directors, the Audit Committee **APPROVED** the Statutory Financial Statements and associated certificates for signature.

The Statutory Financial Statements and Annual Report would be submitted to Monitor by 7th June, 2011 and the Annual Report and Accounts would be submitted to Parliament in early summer.

AC/11/28

Any Other Business

Extraordinary Meeting of the Board of Directors

The Trust Secretary reported that as a result of the findings reported to the Audit Committee, it would not be necessary to hold an Extraordinary Meeting of the Board of Directors on Wednesday 1st June, 2011.

He thanked colleagues from External and Internal Audit for all their hard work.

AC/11/29

Date of Next Meeting

The next Meeting of the Audit Committee would be held at 8.30 am on Tuesday 5th July, 2011, in the Large Committee Room, Weston Park Hospital.