

Board of Directors Meeting: Thursday 21 May 2009

BD2009.48

Subject	Report from the Audit Committee			
Purpose of paper	To provide the Board with an overview of the Board of Directors' Audit Committee meeting of Thursday 19 March 2009			
Board Lead	Dr Colin Reeves, Non-Executive Director			
Background papers	-			
Action/decision required	To note the discussion, and any actions that the Committee approved			
Key purpose	Strategy	<u>Assurance</u>	Policy	Performance
Strategic Goal	SG3: To achieve financial sustainability and long-term growth			
Strategic Objective	SO10: To become a strategic, high performing and agile organisation supported by efficient and patient focused clinical processes, modern systems and business processes			
Links to: Board Assurance Framework/ Trust Key Risks/Annual Health Check element(s)	-			
Also considered by	-			
Resource and financial impact	As covered by Committee discussion			
Consideration of legal/equality/diversity/engagement issues	As covered by Committee discussion			
Acronyms and abbreviations used	-			
Author	This report is based on minutes of the meeting prepared by the Board Secretary. The Committee Chair has endorsed the draft minutes for circulation to Committee members, who have not yet met to formally approve them			

Matters arising

AC 52/08 Auditors Local Evaluation (ALE) action plan 2009/10

A dedicated working group was monitoring compliance with Key Lines of Enquiry under the ALE requirements for 2009/10. The Executive Board had not yet considered the outline plan, which included past and current projects. Emphasis should be placed on the need for more and better information, and for recognition of the gradual shift from a 'tick box' process to full engagement and systems improvement.

AC 52/08 Reference Costs

The reference costs were effectively draft results, as some issues for 2007/08 were outstanding, and others had complex data flows that required further analysis and definition. The provisional score was 106, an increase from 98 in 2007/08. This deterioration derived from the additional revenue costs of the west wing and children's hospital at the John Radcliffe Hospital; the market forces factor; and expenditure of £31m that alone accounted for four points. The Committee would consider a paper at its next meeting, setting out performance by specialty, and an analysis of the data that would become available by 30 April 2009.

Reports from CEAC

Recommendations follow-up: update as at Friday 13 March 2009, and recommendations overdue at 13 March 2009

Further responses had been received to some outstanding audit recommendations. The Committee should continue to consider the reports at each meeting until performance improved. A letter would be sent to the relevant lead managers, describing the Committee's concern about outstanding issues.

An issue was removed from the schedule if it became redundant during the extended period in which it remained unresolved. Other issues sometimes mutated in the interim. However, legitimate constraints could arise to carrying out particular recommendations.

Internal Audit Progress report

All audits would be completed by 31 March 2009. The allocated hours remaining from the 2008/09 programme would be added to hours from the 2009/10 programme for work in Division A. Of the completed audits, it was significant that limited assurance attached to nine. As the presentation of data was refined during 2009/10, it would become possible both to define audits by category, and to include the new risk categories. The Trust could increase its assurance about workforce risks by including them in the Board Assurance Framework.

Internal Audit Annual Plan 2009/10

To support the Trust's performance improvement and cost reduction programme in 2009/10, the plan for 2009/10 included fewer days than that for 2008/09. The number of days remaining would be adequate. The auditors would automatically revisit any topic that was categorised 'poor' or 'unacceptable', increasing the demands on a contingency

budget. The number of assurance levels against which each audit was defined would be increased from four to five.

Five days' work was no longer required to audit the payroll provider, because the Trust remained satisfied with the service that UHB provided. In 2009/10, the Trust would be required to declare assurance against the Standards for Better Health for the first six months. Accordingly, the Committee might re-phase the programme to audit how the Board of Directors received assurance on hospital-acquired infection. Audits on Information Management should reflect the new Executive Director leads for OHIS, coding and information management. The number of days to be allocated to Charitable Funds was being increased by one third because of specific issues, but this increase would be reviewed.

Counter Fraud Progress Report

Issues around car parking, salary payments, and prescriptions had been investigated. Rules for private practice were being revised. Policies and procedures continued to be developed, and protocols negotiated with departments. Effective contacts had been established with Directors and managers, including through Leaders' Briefings. Although relatively few staff had replied to a recent survey, individual responses had been informative, and the exercise would be repeated.

Counter Fraud Annual Plan 2009/10

Overall, 130 working days was the minimum recommended time to be dedicated to counter fraud, and to provide compliance with the associated ALE requirement at Level 3. At a cost of £6,400, it was proposed in 2009/10 to increase by twenty the number of days' work dedicated to counter fraud. Some of these would be ring-fenced for proactive work, so that investigation of incidents did not absorb the full allocation. Protected days that proved to be unnecessary could be used for other purposes, or the associated funding could be returned to the Trust.

Reports from the Audit Commission

External Audit Progress Report

Solid progress on the significant issues had been achieved. Final reports had been completed earlier in the cycle. Some recommendations from 2007/08 would be revisited, with reference to internal audit where necessary. The team had participated in the ALE Group meeting, and undertaken work on the control element of the exercise on payroll provision. The first stage review of the International Financial Reporting Standards (IFRS) was set to meet the May 2009 deadline for completion. The limit on income from private patients in foundation trusts remained in place despite pressure from various parties. However, the Trust remained well within its likely notional limit.

External Audit Plan 2008/09 and fees update

The plan had been revised, and would apply a full range of benchmarks. Overall, it remained on course to monitor controls as the Trust absorbed the requirements of external accreditation bodies, and moved towards authorisation as a foundation trust. The net fee in 2009/10 would increase by only 2% despite significant changes such as the introduction

of IFRS, in part because the Audit Commission intended to rebate 3% of fees towards work on IFRS. External Audit should keep under review the number of referrals deriving from Oxfordshire PCT, to ensure that it reflected the service level agreement for 2009/10. If necessary, this would support recalibration of the service level agreement.

Publishing Financial Statements in Electronic Format

Any signature of an Audit Commission auditor on any Trust document should not be included on any facsimile that the Trust subsequently displayed on one of its websites.

2008/09 Annual Accounts and related issues

Year end accounts and faster close

The year-end timetable was challenging, but so far the Trust was on course to complete the accounts and audit on time. Regular meetings were taking place between the Trust's accounts team and external audit.

Impairments

In 2008/09, the Trust had to comply for the first time with full UK accounting standards, which created a much greater risk of any property impairment affecting the income and expenditure account. At the same time, the international economic position created the need to review the carrying value of land and buildings. In addition, the Royal Institute of Chartered Surveyors had changed the valuation rules in a way that might reduce values, particularly for the Trust's landholdings. Discussions were in hand with the auditors, and an impairment was likely in relation to land in the 2008/09 accounts, but none of this would impact on income and expenditure.

Accounting policy: 2009 accounts

Effective governance required the Committee to review and approve accounting policies. There was only one potentially contentious issue. When the accounts were restated to an IFRS basis, a provision would be required for untaken annual leave, as this was mandatory under IFRS; this was likely to be between £2m and £3m. As such leave remained untaken whatever the accounting convention, there was an argument that it should be provided in the version of the accounts that was based on UK generally accepted accounting procedures (GAAP). If this was done, there would be a material impact on the 2008/09 income and expenditure position. It was not mandatory in UK GAAP, and it had not been customary to make such provisions. Audit accepted that, provided the accounting policies clearly stated that no provision was made for untaken leave, no provision would be required in the final set of UK GAAP accounts.

The long-standing reserve resulting from the merger with the Horton Hospital had been separately identified because the national NHS accounting manual specifically required it.

International Financial Reporting Standards

Segmental reporting

The IFRS accounts would be prepared under IFRS 8, a new standard that was much more rigorous in requiring publication of segmental data. However, it was still possible to aggregate segments with similar economic characteristics. Audit accepted that all of the

Trust's existing segments could be aggregated for reporting, with the exception of private patient and research activity in so far as these were reported internally in discrete operational units. However, at present both the private patient directorate and the BMRC fell below the *de minimis* limits in the standard. It had therefore been concluded that the Trust need not currently present segmental data in the IFRS accounts, although movement towards service line reporting might make it easier to do so in the future. The recommendation was that the initial IFRS accounts should be published without segmental data.

Trust breakeven duty

The Audit Commission had confirmed the continuing validity of a previous agreement not to reclaim the deficit. With the contribution already included in the 2009/10 budgets, by April 2010 only two years would remain of the seven years' agreement for repayment of the outstanding sum. Following application of the long term financial model in May and June 2009, he would bring assurance to the next meeting of the Committee, and subsequently to the Board of Directors, that the Trust could discharge this duty within the specified seven years.

The Board of Directors needed to understand those assets of which it could dispose, particularly as it sought authorisation as a foundation trust. Selling an asset did not itself help the process unless there was a "profit on disposal". Alternative possibilities would be assessed.

Procedures in anticipation of foundation trust status: treasury policy

Before it could be licensed as a foundation trust, the Trust must adopt an appropriate treasury policy. Approval was therefore sought of the new policy, on the basis that it would not come into effect until the Trust was licensed as a foundation trust. The policy required a qualified person to head the treasury function; and the Board of Directors should consider how best to resource the requirement to establish an Investment Committee.

Audit Committee: annual report 2008

The annual report followed the format of previous reports, in covering a calendar, rather than a fiscal, year. This allowed both the Committee and the Board of Directors to understand what had happened after the financial year closed, as a result of action taken during it. It was resolved that future reports should be available in draft to the Committee each November.

Items for Information

The Committee noted receipt of the following documents, about which members had no questions to raise: *Audit Commission; Partnership Stage 1 Report; PbR Data Assurance Report; Interim Report; Cost of Transition to IFRS; Financial Management in the NHS: Report on the NHS Summarised Accounts 2007/08; Work Programmes and Scale of Fees 2009/10; and Quality Accounts: Introducing Quality Reports in 2008/09.*

CEAC: completion of the 2007/08 information governance toolkit

The work of the Information Governance Manager needed to be given more priority, and additional presentations to senior managers were needed. The central issue remained to motivate staff to understand the reasons for action, and to take it. In future years, the draft response should be prepared by 31 December, so that the Committee could consider the final report by 31 March.

Losses and Special Payments

The Committee approved a report.

Any other business

Retirement of Professor Towse

Due to his imminent retirement as a Non-Executive Director Professor Towse was thanked *in absentia* for his contribution to its work.