

**AUDIT COMMITTEE**

**Minutes of the Meeting of the Audit Committee of the  
Board of Directors of Sheffield Health & Social Care NHS FT  
Friday, 26 May 2017 in the Rivelin Board Room, Fulwood House**

Open BoD 13 9 17 Item 16ci
-------------------------------

**Present:**

- |                      |                                |
|----------------------|--------------------------------|
| 1. Mrs. Ann Stanley  | Non-Executive Director (Chair) |
| 2. Mr. Leigh Bramall | Non-Executive Director         |

**In Attendance:**

- |                           |   |
|---------------------------|---|
| 3. Mrs. Sue Rogers        | Non-Executive Director  |
| 4. Mr. Richard Mills      | Non-Executive Director  |
| 5. Mr. Kevan Taylor       | Chief Executive   |
| 6. Mr. Clive Clarke       | Deputy Chief Executive  |
| 7. Mr. Phillip Easthope   | Executive Director of Finance                                     |
| 8. Dr. Mike Hunter        | Executive Medical Director  |
| 9. Mr. James Sabin        | Deputy Director of Finance  |
| 10. Ms. Margaret Saunders | Director of Corporate Governance/Board Secretary                  |
| 11. Ms. Tania Baxter      | Head of Integrated Governance (Part Meeting Only)                 |
| 12. Mr. Rashpal Khangura  | Director, KPMG External Audit Service                             |
| 13. Ms. Lisa Mackenzie    | Client Manager, 360 Assurance (Part Meeting Only)                 |
| 14. Mr. Robert Purseglove | Local Counter Fraud Specialist, 360 Assurance (Part Meeting Only) |
| 15. Mr. Tim Thomas        | Director, 360 Assurance (Part Meeting Only)                       |
| 16. Ms. Lizzie Wharton    | Manager, KPMG External Audit Service                              |
| 17. Mrs. Jeanine Hall     | PA (Minutes)  |

**Apologies:**

- |                       |   |
|-----------------------|---|
| 18. Mr. Mervyn Thomas | Non-Executive Director                                      |
| 19. Ms. Liz Lightbown | Executive Director of Nursing, Professions & Care Standards |

Minute		Action
01/05/17	<b>Welcome &amp; Apologies for Absence</b> Mrs. Stanley welcomed members to the meeting and apologies were noted.	
02/05/17	<b>Declarations of Interest</b> No changes or additions to declarations of interest were reported.	
03i/05/17	<b>Minutes of the Audit Committee held on 18 April 2017</b>  i. <u>Briefing Paper: Material Estimates 2016/17 (item 11/04/17 refers)</u> 7 <sup>th</sup> paragraph should read "Mrs. Stanley noted the assurance in respect of the pension <u>disclosure</u> which it was felt was ....."  ii. <u>360 Assurance Interim Head of Internal Audit Opinion Statement (item 16/04/17 refers)</u> 8 <sup>th</sup> paragraph should read "... Mr. Tim Thomas advised that he had submitted a redacted version of the draft statement to another Director of <u>Audit</u> for review ....."  iii. <u>Audit Committee Annual Report &amp; Significant Issues Report (Draft) (item 23/04/17 refers)</u>	

	<p>It was confirmed that the final Audit Committee Annual Report would be received at the June Board of Directors' meeting following sign off at this meeting.</p> <p>Following these amendments, the minutes of the meeting held on the 18<sup>th</sup> April were approved for receipt at the June Board of Directors' meeting (open session).</p>	
<b>03ii/05/17</b>	<p><b>Minutes of the Audit Committee held on 24 April 2017</b> The minutes of the Audit Committee held on 24 April 2017 were approved for receipt at the June Board of Directors' meeting (open session).</p>	
<b>04/05/17</b>	<p><b>Matters Arising &amp; Action Log</b> Members reviewed the Committee Action log and actions were confirmed and/or updated accordingly. A copy of the updated action log is attached to these minutes for members' information.</p> <p>i. <u>Review of Overall Process for Finalisation of Year-End Annual Reporting Documents</u> Confirmed that EDG would be reviewing the timetable and slippage experienced during this year's processes and the production of the necessary annual reporting documents. This item to be added to the action log.</p>	EDG
<b>Corporate Governance</b>		
<b>05/05/17</b>	<p><b>Final Audit Committee Annual Report &amp; Significant Issues Report</b> Mr. Easthope confirmed that this was the final version of the Audit Committee Annual Report, following consideration of the draft report at the Committee's meeting held on 18 April 2017. He advised that all agreed amendments have now been made and that final assurances and significant issues dealt with at two meetings held in April were now incorporated as appropriate. The report was presented to the meeting today for final approval prior to presentation at the June 2017 Board of Directors' meeting.</p> <p>The Audit Committee Annual Report was approved for receipt at the June 2017 Board of Directors' meeting.</p>	JCH
<b>06/05/17</b>	<p><b>Self-Certification Against Provider Licence Conditions</b> Ms. Saunders presented the self-certification against conditions G6, CoS7 and FT4 within the FT Provider Licence and confirmed that the Board is required to sign off the self-certification no later than 31 May 2017 in respect of G6/CoS7 and 30 June 2017 in respect of FT4. Once received and noted by the Audit Committee, the self-certification will be received by the Board of Directors' at their meeting scheduled for later today for approval.</p> <p>Ms. Saunders advised that completion of the self-certification demonstrates that the Trust has met the Provider Licence conditions as described.</p> <p>The Chair reminded members of discussion at the April meeting regarding other non-statutory reporting areas. Ms. Saunders confirmed that a paper has been received at the Executive Directors' Group (EDG) regarding this element and following comments from EDG a further paper is being prepared to consider this process in more detail.</p> <p>Members noted the self-certification information and were pleased to recommend to the Board that the self-certification be approved, signed and published.</p>	MS
<b>Internal Audit</b>		
<b>07/05/17</b>	<b>360 Assurance Final Internal Audit Annual Report &amp; Head of Internal Audit</b>	

	<p><b>Opinion 2016/17</b></p> <p>Mr. Thomas advised that the final Head of Internal Audit Opinion Statement for 2016/17 confirms a moderate assurance opinion as discussed at the meeting held in April. He confirmed that the delivery of internal audit services had met the mandatory Public Sector Internal Audit Standards and that an independent assessment against these standards is to be undertaken during 2017/18, the outcome of which will be shared with the Committee.</p> <p>Whilst the report notes that all KPIs have been made, Mr. Thomas drew members' attention to KPI 6 which related to management responses to be provided within two weeks of receiving the final draft report. Performance against this target was reported at 57% and he confirmed that further work is being undertaken to improve performance in this area.</p> <p>He noted the outcome of the client satisfaction surveys undertaken in year following the conclusion of all audit reviews.</p> <p>In response to a question from Mr. Mills regarding the Information Governance Toolkit (IGTK) Audit, which received a limited assurance, and the deferment of the IT Strategy audit, Mr. Thomas advised that the IGTK audit by its nature has to be undertaken at a point in time, considering the evidence available at that point. At the time of the audit there were issues regarding the evidence in place, resulting in the limited assurance. Mr. Easthope acknowledged the gaps identified, however, he advised that a strategic decision was taken by the Director of IMST to prioritise other areas of the department's workload, including the roll out of Microsoft licences and upgraded cyber security. It had also been recognised that the current IGTK is currently being reviewed and is set to change next year and a decision was taken therefore not to spend time addressing gaps in a process which is due to change. Efforts will concentrate on addressing the refreshed IGTK once issued.</p> <p>The audit of the IT Strategy was deferred at the request of the Director of IMST. Mr. Thomas confirmed that this was subsequently approved by the Audit Committee and the audit has been included in the 2017/18 plan. By way of assurance for members, Mr. Easthope noted that the Trust is at the forefront of designing IT strategy for the whole healthcare system, not just SHSC.</p> <p>Members acknowledge the receipt of this report, noting that lengthy discussion had taken place at the April meeting regarding the moderate assurance opinion given in the Head of Internal Audit Opinion Statement.</p> <p>The Chair noted the committee's thanks to internal audit colleagues for their work and assistance during the year.</p>	
<p><b>08/05/17</b></p>	<p><b>Local Counter Fraud Specialist Annual Report 2016/17</b></p> <p>Mr. Purselove presented the 2016/17 LCFS Annual Report, which he advised provided a summary of the information received by the Committee through the year and it produced in compliance with NHS Protect Provider Standards.</p> <p>Following comment regarding the recent cyber-attacks experienced by some NHS Trusts across the country, Mr. Purselove confirmed that as discussed at the last meeting, the risk rating in respect of this area has been increased, specifically in terms of people risk as opposed to systems. He noted that efforts will concentrate on education and awareness and investigation where necessary.</p> <p>The Chair noted the inclusion of a summary of scam warnings issued throughout the year and requested that in terms of providing additional assurance to the Committee, future updates include details of whether the Trust had been affected by any of these potential scams. Mr. Purselove provided an</p>	<p>RP</p>

	<p>assurance that he did not believe the Trust was being targeted by scam emails and that the level of scam emails received into the Trust is being replicated throughout the health community.</p> <p>On behalf of the committee, the Chair thanked Mr. Purseglove for his continued work in the Trust throughout the year.</p> <p><i>(Mr. Thomas; Ms. Mackenzie and Mr. Purseglove left the meeting at this point)</i></p>	
<b>Financial Statements &amp; Annual Report</b>		
<p><b>09/05/17</b></p>	<p><b>To receive the Final Accounts &amp; Associated Documents for the Year 2016/17</b></p> <p>i. <u>Draft 2016/17 Annual Accounts &amp; Remuneration Report</u>  Members received and noted the final version of the 2016/17 Annual Accounts. Mr. Sabin reminded members that whilst the draft Annual Accounts were received at the meeting of the Audit Committee held on 24 April, at that point the Trust was still awaiting notification from NHSi of its additional STF bonus payment. This was confirmed late on 24 April and he advised that the value of this payment (£561,000) had now been incorporated into the final version of the accounts received by members today. It was further confirmed that detail of this additional payment was received at the May Board meeting and that the impact on the Trust's overall surplus, as reported at the May Board, was to increase the surplus to £1,529m (on which the final Accounts are based).</p> <p>Mr. Sabin then advised that in addition to the inclusion of this additional payment, three primary changes had been made since the draft Accounts were received and were outlined in the accompanying paper. These were:</p> <ul style="list-style-type: none"> <li>• A change to the presentation of the cash flow;</li> <li>• The need to split the presentation of the audit fee between Financial Statements and Quality Report Audit; this also resulted in a £1k rounding error being corrected;</li> <li>• A change to the disclosure to the 3<sup>rd</sup> party asset balances.</li> </ul> <p>A further change was also made to the Remuneration Report previously received by members with regard to a correction to the pension disclosure which incorrectly mapped across the prior year values.</p> <p>For the benefit of colleagues who had not had the opportunity to view the earlier version of the draft Accounts, the Chair reiterated that the additional income received by the Trust and now incorporated into the final version of the Accounts, related to the Trust's additional share of the SFT funding and has resulted in the Trust exceeding its planned surplus/control total. Mr. Easthope confirmed that a reconciliation of this position had been provided in the March 2017 Finance Report to the Board of Directors.</p> <p>Mr. Taylor, whilst acknowledging the additional income was welcome, raised concerns regarding a possible undermining of the Trust's message re on-going financial constraints. An unforeseen payment received so late in the year did pose issues for the Board and Executive Team with the workforce, Staff Side and service users. Discussions have already commenced regarding the need to ensure that the narrative is correct, clear and consistent with all parties regarding this position and how the additional income can be utilised for the benefit of the Trust, its staff and service users. It was proposed to continue these discussions at the Board of Directors meeting, particularly in preparation for the Annual Members' Meeting.</p> <p>Mr. Sabin apologised for the absence of a detailed final analytical review at</p>	

	<p>today's meeting and confirmed that it was still the intention to prepare this for the Committee, whilst noting that the majority of the significant variance in income is in line with plan and known disinvestments.</p> <p>The Committee approved the Accounts for formal adoption at the Board meeting on 26 May 2017 and asked that its thanks and appreciation for the work undertaken to reach this stage be passed onto everyone who contributed to the process.</p> <p><i>(Ms. Baxter, Head of Integrated Governance, joined the meeting during this item)</i></p> <p>ii. <u>Draft 2016/17 Annual Report</u>  Noted that the current version of the Annual Report was available to members electronically and Ms. Saunders confirmed that this report had been received at various committees for review and comment over the last few weeks.</p> <p>Ms. Saunders confirmed that once the report is finalised, work will commence on preparing a summary of the report.</p> <p>It was confirmed that the summary of the work of the Audit Committee, as agreed at the last meeting, has now been incorporated into this iteration of the Annual Report.</p> <p>Mrs. Stanley suggested that in preparation for next year's report, consideration is given to breaking the report into sections for review by the appropriate Board committee rather than providing the whole draft report at each meeting.</p> <p>The Committee concluded that they were happy to accept the report and recommend the Board of Directors to sign it off at their meeting to be held on the 26 May 2017.</p> <p>Members expressed their appreciation of the work undertaken by all parties to produce the report on behalf of the Trust.</p> <p>iii. <u>Draft 2016/17 Quality Report</u>  Dr. Hunter presented the current iteration of the 2016/17 Quality Report, which was received at the Quality Assurance Committee (QAC) meeting on 22 May 2017. He confirmed that the main substance of the discussion at QAC was in relation to the statement in the report regarding Eliminating Mixed Sex Accommodation (EMSA). Where previously the report had noted that the Trust was compliant, this statement has now been nuanced to reflect that whilst the Trust has not breached any of the EMSA requirements that require central reporting, we are not entirely compliant. It is accepted that the EMSA situation is being managed to the best that our current accommodation allows, in partnership with the CCG, and acknowledged that the CQC identified this as a difficulty in the November 2016 visit and that it is part of our action plan going forward.</p> <p>Dr. Hunter also advised that whilst stakeholder feedback on the Quality Report has been incorporated into the report, some very last minute further feedback has been received from the CCG which affects the interpretation of the CQUIN information within the report. He confirmed that the following changes would be incorporated within the final version of the Quality Report to be signed off by the Board of Directors:</p> <p>Section 2.3: Goals agreed with our NHS Commissioners –</p> <p>Improving physical healthcare to reduce premature mortality in people with severe mental illness:</p>	<p>JS</p> <p>MS</p>
--	--	---------------------

Communication with GPs – should read “not achieved”

Incentivising improvements in the areas of safety, access, effectiveness and user experiences:  
 Formal Carers Assessments – should read “partially achieved”

Mr. Easthope advised that it was confirmed at the most recent Contract Management Board meeting that any changes to the final CQUIN position would not incur any further financial penalties and would not, therefore, affect the financial statements in Accounts.

Ms. Baxter confirmed that the final narrative of the Quality Report has been incorporated into the final version of the Annual Report for approval at the Board of Directors’ meeting to be held later today and has also been shared with the external auditors for their review.

The Committee were pleased to recommend the final Quality Report to the Board of Directors for approval, noting the changes made to date, plus the two further changes requested by the CCG as noted above.

Members expressed their appreciation of the work undertaken by all parties to produce the report on behalf of the Trust.

iv. External Assurance on the Trust’s Quality Report  
 Agreed that discussion on this item would be incorporated into item (vi) below.

v. Draft Annual Governance Statement 2016/17  
 Ms. Saunders presented the final Annual Governance Statement and noted that changes made since it was last received by this committee had been highlighted for ease of reference.

The Committee were pleased to recommend the final Annual Governance Statement to the Board of Directors for approval and sign off.

vi. External Audit Annual ISA 260 Report  
 Mr. Khangura presented the ISA 260 External Audit Report relating to the audit of the 2016/17 Trust financial statements and that this statement discharges the responsibilities of external audit under International Audit Standard 260, which requires them to report back and provide assurance to the Trust on three primary areas – financial statements; value for money conclusion and quality report.

He confirmed that their work had progressed through the year in accordance with the agreed audit plan and as reported to the Committee meetings in-year. No major issues had been identified and that, as required, they had flagged any significant risks to the audit, the detail of which is included in the ISA 260 Report.

Whilst he noted that the year-end processes have not been as smooth as in past years due to some of the staff changes and long term sickness experienced within the finance function; he acknowledged the good level of support received by the external audit team and thanked the finance team and other officers within the Trust for this support.

Mr. Khangura confirmed that following the Board of Directors’ meeting later today and the finalisation and approval of the appropriate documentation, he would be in a position to confirm a clean opinion on the Accounts in that they provide a true and fair reflection of the Trust’s financial statements for the year; a clean value for money conclusion and a clean Quality Account opinion. He also reaffirmed the minor changes made to the draft Accounts as a result of their

audit, which Mr. Sabin had outlined earlier in the meeting.

Ms. Wharton then went on to outline the significant risks identified during the course of their work, the outstanding areas, as well as the recommendations made following completion of the audit.

She referred to page 3 of the report in respect of outstanding issues and noted that the required assurance had now been received in respect of finalising the work on payroll. The one remaining outstanding item – reviewing the final version of the Annual Report – would be complete once Ms. Wharton has had the opportunity to review the version provided during the course of this meeting, but in principle she anticipated no problems in this respect.

With regard to the significant risks referred to by Mr. Khangura, Ms. Wharton advised that these were two specific NHS risks which have been identified in a number of Trusts. Namely, the valuation of NHS income, taking into account risks and uncertainties surrounding STF funding, and the fact that NHS income is such a large part of SHSC income. She confirmed that their work on this risk has provided the appropriate assurance that the figures reported in the Accounts are materially correct. The second risk in respect of valuation of land and buildings and she confirmed that following their work on this significant risk they are assured that the figures reported in the Accounts are materially correct. In response to a query from the Chair regarding this risk, it was confirmed that whilst there is a degree of prudence applied in the value of Trust land and buildings and indeed the value of the core estate could have been increased, this was not above the internal trigger that had been set for a full evaluation to be undertaken and the values were appropriate.

Ms. Wharton advised that in addition to the two risks noted above, there are two statutory risks which have to be considered as part of their audit work. Any potential risk regarding revenue recognition, which is in the main reviewed as part of the work on NHS income, as well as reviewing the Trust's non-NHS income. The appropriate assurances were received in respect of this risk. The second risk relates to management over-ride of controls and Ms. Wharton confirmed that their testing had provided the necessary assurances that there were no issues in this respect.

In terms of the value for money conclusion, Ms. Wharton noted that there were two significant risks identified in this element of their work relating to the delivery of CIPs and the outcome and Trust response to the recent CQC inspection. She confirmed that, in line with their interim reports regarding these risks, in respect of the first risk, they were comfortable that the position and the steps taken by the Trust to manage this target were appropriate. With respect to the second risk, the rating of Good from the CQC and the subsequent action plan for areas for improvement provided the necessary assurance in this respect.

Ms. Wharton reaffirmed that as a result of their work around the value for money conclusion, there were no areas of concern to draw to the committee's attention.

With respect to the Quality Report, Ms. Wharton advised that a limited assurance opinion is given as a result of their work. She advised that it was worthy of note that on one of the indicators (7 day follow up) the basis on which the Trust had been doing it, and which had been audited by KPMG in previous years, did not actually comply with the guidance, which she acknowledged was not the most clearly worded guidance. Following the identification of this anomaly and further conversation with Trust officers, the report was amended to include those service users on CPA and not on CPA, and Ms. Wharton confirmed that the indicator information within the report was now compliant with the guidance.

In response to a query from Mr. Mills regarding the “limited” assurance opinion on the Quality Report, Ms. Wharton advised that this refers to the limited focus of their work, rather than the assurances provided as a result.

Ms. Wharton confirmed that a number of recommendations have been made as a result of their work in the current year, as outlined in the ISA260 report, all of which have been provided with a confirmed management response. With specific respect to the recommendation regarding contract income and the related action plan, the Chair noted that this was a recurring recommendation and asked that this receive particular focus going into the new year.

Mr. Khangura referred members to appendix 2 of the report, which confirmed KPMG’s independence and objectivity during the course of the audit and appropriate sign off.

In terms of final comments, Mr. Easthope expressed his thanks to Mr. Sabin for his work through this process. Whilst the staffing difficulties and challenges within the finance function have been documented and discussed, and there is some recognised internal learning from this year’s processes in terms of oversight and continuous development, it is confirmed that this will be addressed on behalf of the Trust. The unqualified opinion given on the Trust’s Accounts is testament to the amount of work that has been undertaken, in the present circumstances, to reach this position.

Mr. Easthope also expressed his thanks to audit colleagues, acknowledging the staffing difficulties encountered as well as the technical glitches which had to be addressed and overcome and he commended the professional manner in which the audit has been conducted.

At this point of the meeting, Dr. Hunter expressed his thanks to governance colleagues for their work on producing the Quality Report in which was not an entirely straightforward process and offered his apologies to the Committee for the manner in which the Quality Report was tabled at the meeting on 24 April. The Chair responded by confirming that the Committee received the appropriate level of assurance regarding the process undertaken to complete the Quality Report and the information it contained.

On behalf of the Committee, the Chair closed this item by acknowledging that during what is already a challenging timetable, additional problems as outlined above had added to the situation. She also extended the Committee’s thanks to external audit colleagues and all staff involved in the completion of the year-end statements and was pleased to note that the Trust has received an unqualified opinion statement on the Annual Accounts.

vii. Draft Letter of Representation

The draft letter of representation was formally received by members and it was agreed that following discussion at today’s meeting the letter could be formally signed off as appropriate.

This agreement would be formally reported to the extra ordinary Board of Directors’ meeting later today.

viii. Draft Quality Report Letter of Representation

The draft Quality Report letter of representation was formally received by members and it was agreed that following discussion at today’s meeting the letter could be formally signed off as appropriate.

This agreement would be formally reported to the extra ordinary Board of Directors’ meeting later today.

<i>Other</i>		
<b>10/05/17</b>	<p><b>Review Future Meeting Agenda Planner</b> The meeting reviewed the agenda planner for the meeting scheduled to take place in July.</p> <p>It was agreed that the External Audit Progress Report would be a verbal report due to its brief nature in terms of confirmation of the final submission of year-end documents.</p> <p>The Chair also requested the opportunity for Committee members (Non-Executive Directors) to meet with External Audit Colleagues and it was agreed that this would take place prior to the formal meeting commencing.</p>	NEDs/ KPMG
<b>11/05/17</b>	<p><b>Any Other Business</b> None.</p>	
<b>12/05/17</b>	<p><b>Evaluation of Meeting</b> Members then went on to review the effectiveness of the meeting and determine what, if any, significant items should be noted as part of the committee's assurance to the Board of Directors.</p> <p>It was agreed that the assurances received by the committee through the course of the meeting related to the successful completion and submission of the year-end statements, which would be received for approval at the extra-ordinary Board meeting scheduled to take place after this meeting.</p> <p>In terms of significant issues, it was agreed that all assurances received at today's meeting would be reflected in the Committee's recommendation to the Board to sign off all documents relating to the year-end financial statements.</p> <p>The Chair reiterated concerns regarding the timeliness of papers received by the committee and it was reaffirmed that this general theme was to be picked up and discussed further at the Executive Directors' Group.</p>	
<b>13/05/17</b>	<p><b>Date, Time &amp; Venue of Next Meeting</b> Tuesday, 11 July 2017 1.00 p.m. Tudor Board Room, Fulwood</p>	

AS/jch/June 2017 (approved AS)  
Approved AC July 2017