

MINUTES OF THE PHSO AUDIT COMMITTEE: TUESDAY 10 NOVEMBER 2015
1.30pm - 4.45pm, Boardroom, Millbank Tower

MEMBERS PRESENT

Sir Jon Shortridge, KCB (Chair)
Helen Walley
Ruth Sawtell
Alison White

IN ATTENDANCE

External Audit - National Audit Office (NAO):

Redacted - section 40(2) FOIA, Director
Redacted - section 40(2) FOIA, Manager
Redacted - section 40(2) FOIAr (observer)

Internal Audit - KPMG (KPMG):

Redacted - section 40(2) FOIA, Senior Manager
Redacted - section 40(2) FOIA, Manager

Parliamentary & Health Service Ombudsman (PHSO):

Dame Julie Mellor, DBE, Ombudsman and Accounting Officer
Mick Martin, Managing Director and Accountable Officer
Gill Kilpatrick, Executive Director of Finance & Governance
Stephen Lotinga, Interim Executive Director of External Affairs & Strategy (for item 5)
Rebecca Marsh, Executive Director of Operations & Investigations (for item 8)
Steve Brown, Head of Risk and Assurance, Performance and Planning
Redacted - section 40(2) FOIA, Governance, Risk & Assurance Manager (Committee Secretary)

1. INTRODUCTIONS & WELCOME

- 1.1 The Chair welcomed Redacted - section 40(2) FOIA to her first PHSO Audit Committee meeting, and also welcomed Redacted - section 40(2) FOIAr, who had recently joined the NAO and was observing the meeting as a learning experience.

2. APOLOGIES

- 2.1 Apologies were noted for Tamas Wood, Director at KPMG and PHSO's appointed Head of Internal Audit.

3. DECLARATIONS OF INTEREST

- 3.1 No declarations of interest were made.

4. MINUTES AND ACTIONS FROM MEETING OF 28 SEPTEMBER 2015

- 4.1 The minutes of the Committee's meeting of 28 September 2015 were agreed as an accurate record.
- 4.2 With regard to the Committee's discussion of the 2015/16 Internal Audit Plan at its 28 September meeting, it was agreed that an action point should be created to ensure that PHSO addresses the need to be '*mindful of the financial consequences of business decisions from an accounting and financial reporting perspective*' (paragraph 11.6, second bullet point). It was also agreed that all actions noted to be '*open*' or '*in progress*' should state their expected deadlines for completion.

Action 1: PHSO to ensure it is mindful of the financial consequences of business decisions from an accounting and financial reporting perspective, as set out in the Financial Management Improvement Plan.

Action 2: Redacted - section 40(2) FOIA to ensure that all 'open' and 'in progress' actions state their expected deadlines for completion.

5. STRATEGIC RISK UPDATE

Strategic Risk Report for Q2 2015/16

- 5.1 Gill Kilpatrick introduced this report by advising that PHSO plans to review its approach to risk reporting during Q3 and Q4 of 2015/16, in order to develop a risk register for 2016/17 that allows the Executive more time to generate insight and add value. In the meantime, PHSO would continue to use its existing register as presented.
- 5.2 Gill Kilpatrick highlighted the following aspects of the risk register:

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5.3 The Committee discussed in detail the content of the risk register, and made the following key points:

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5.4 The Committee welcomed the proposed review of PHSO's approach to risk reporting.

5.5 The Committee agreed that the Board should pick up the issue of PHSO's risk appetite and establish it, at a more granular level (by strategic aim) than at present. It was also noted that the business expectation and non-tolerance

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levels in the risk register would differ by individual strategic aim to reflect the risk appetite.

5.6 The Chair summarised the discussion on this item as follows:

Action 3: Executive risk owners, with support from the Risk, Assurance, Planning and Performance Team, to incorporate the Committee's feedback on the risk register in time for Q3 risk reporting to the Board.

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*Action 4: Executive Team, with support from the Risk, Assurance, Planning and Performance Team, to incorporate the Committee's feedback
in time for Q3 risk reporting to the Board.*

Action 5: Stephen Lotinga to present PHSO's stakeholder management strategy to the Board once it is ready.

Action 6: Gill Kilpatrick to present the revised version of the risk register at the PHSO Board meeting in January 2016.

Stephen Lotinga left the meeting at this point.

6. **MATTERS RELATED TO PHSO'S ACCOUNTS FOR 2014/15, AND KPMG'S
INTERNAL AUDIT REPORT ON CASH CONTROLS**

Draft Financial Management Improvement Plan

6.1 Gill Kilpatrick introduced this paper, which set out the work undertaken to date to improve financial management and control across PHSO and identified the key priorities for the rest of the 2015/16 financial year. It was noted that this was a time for reflection on the progress made to date, with the Supplementary Estimates and the 2016/17 budget plan both upcoming.

6.2 The Committee was satisfied with the plan but raised the following concerns:

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Redacted - section 40(2) FOIA suggested that PHSO develop timetables for laying its accounts before Parliament both before and after the summer recess, in order to give assurance on both consistency and quality.

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6.6 The Chair summarised the discussion on this item as follows:

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Action 7: Gill Kilpatrick to present the draft Financial Management Improvement Plan to the Board, for confirmation from the Accounting Officer that it provides the assurance required.

Action 8: Gill Kilpatrick to incorporate appropriate criteria for measuring success into the Financial Management Improvement Plan.

Action 9: Gill Kilpatrick to bring the Financial Management Improvement Plan back to the Audit Committee with an update on progress, changes and additions made, details on the residual risks identified, and confirmation of whether any of the work in the plan needs to be re-phased.

Action 10: Gill Kilpatrick to create a project plan for the preparation of the 2015/16 accounts, including provision for a decision on when PHSO should lay its accounts before Parliament before or after the summer recess, for the Accounting Officer and Accountable Officer to consider.

Updated Management Responses to Internal Audit Report on Cash Controls

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Action 11: Gill Kilpatrick to ensure that PHSO's management of, and compliance with, the recommendations in KPMG's cash controls report are managed within the Financial Management Improvement Plan.

Action 12: Gill Kilpatrick to consider withdrawing the direct debit facility provided to the organisation's civil service pension scheme provider.

Lessons Learned for Audit Committee

6.9 The Chair introduced this item by acknowledging that it was important for the Committee to reflect on what it could have done to secure earlier action on the issues highlighted in KPMG's report on PHSO's cash controls, and how it could improve its scrutiny on such matters to prevent a recurrence. The following key points were raised:

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Action 13: Gill Kilpatrick to consider how to keep the Audit Committee properly informed on PHSO's financial management going forward.

7. INTERNAL AUDIT UPDATE FROM KPMG

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Action 14: Executive Team and KPMG to take into account the Audit Committee's feedback on the outline scope terms of reference for the planned audits of Internal Communications and Staff Engagement, Financial and Accounting Systems, and Casework Processes and Quality Assurance.

Action 15: Redacted - section 40(2) FOIA to circulate to Audit Committee members the terms of reference for the review of Value for Money.

Dame Julie Mellor and Gill Kilpatrick left the meeting at this point.

Progress Report for 2015/16

7.6 The Committee noted this report and made no comments on it.

Mid-Year Review of Internal Audit Recommendations Implementation

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Rebecca Marsh joined the meeting at this point, as did (by telephone).

Review of Contract Management

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Action 16: KPMG to review the audit of and report on PHSO's Contract Management in the light of the Audit Committee's feedback.

left the meeting at this point.

8. PHSO CORPORATE MATTERS

Assurance Report on PHSO's Document Retention Process

- 8.1 The Committee welcomed a comprehensive report and took assurance that PHSO had adequate records management practices in place.

Information Governance Compliance - Statistical Report for Q2 2015/16

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Action 17: Rebecca Marsh to review, with assistance from the NAO, whether the first key performance indicator reports on data loss in a way that is consistent with the approach adopted by Government departments.

9. FRAUD AND REGULARITY ISSUES

9.1 The Committee noted this report and made no comment on it.

10. SINGLE TENDER ACTIONS

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10.2 The Committee asked for the clarification on these waivers to be circulated alongside the draft minutes of the meeting.

Action 18: Redacted - section 40(2) FOIA to clarify the concerns raised by the Committee in respect of some of the reported single tender actions, and circulate this information to the Committee alongside the draft minutes.

11. AUDIT COMMITTEE FORWARD PROGRAMME

11.1 The Committee agreed that it should have longer meetings going forward. It was also agreed that PHSO's executive should not have other meetings booked at or around the time of the Committee.

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12. ANY OTHER BUSINESS

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Action 19: NAO to facilitate the Audit Committee's effectiveness review in February 2016.

Action 20: Redacted - section 40(2) FOIA to provide the notes of the Audit Committee's last effectiveness review to Redacted - section 40(2) FOIA.

Action 21: Redacted - section 40(2) FOIA to arrange an extraordinary meeting of the Audit Committee for December 2015, to discuss the Value for Money review.

ENDS.