

## Board of Directors' Meeting Report – 5 October 2016

### Agenda item 93/16

<b>Title</b>	Report from Audit Committee
<b>Sponsoring Director</b>	Mike Green – Non-Executive Director
<b>Authors</b>	Mike Green – Non-Executive, Chair of Audit Committee
<b>Purpose</b>	To update the Trust Board on the meeting of the Audit Committee held on 10 August 2016
<b>Previously considered at</b>	Executive Meeting 21 September 2016
<b>Executive Summary</b>	
<ul style="list-style-type: none"> <li>• Clinical engagement a concerning theme in a number of areas</li> <li>• A compliant reference cost return has been made for 2015/16 supported by internal audit assurance</li> <li>• TIAA are delivering the internal audit plan to schedule</li> <li>• EY have prepared their draft letter to Governors in relation to the 2015/16 year end</li> </ul>	
<b>Related Trust Objective</b>	All objectives through oversight of assurance process.
<b>Related Risk</b>	All risks through oversight of the assurance process.
<b>Essex Success Regime</b>	No impact.
<b>Legal implications / regulatory requirements</b>	Good governance demands an effective assurance framework monitored by the Board through the Audit Committee
<b>Quality impact assessment</b>	N/A
<b>Equality impact assessment</b>	The Committee's agenda focuses on the Trust's systems of internal controls and risk management framework. There will be areas where equality and diversity are a specific consideration. However as far as can be considered this paper has no detrimental impact for the 9 protected characteristics under the Equality Act 2010.
<b>Recommendations:</b>	
The Board is asked to note this report and receive assurance.	

## Report from the Audit Committee

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### 1 Background

The purpose of the Committee is to provide the Board with assurance that an effective risk management framework with appropriate controls is in place.

### 2 Information Governance (“IG”)

The Committee received the quarterly report on IG. During the quarter the highest number of reported incidents related to patient case notes or records, the majority relating to misfiled records. The roll out of NerveCentre, with the introduction of electronic handover, has reduced the number of lost paperwork incidents reported. IG reporting will now be dealt with as business as usual by the Corporate Governance Group, with exception reporting to the Audit Committee.

### 3 Internal Audit

#### Progress report

The Committee received 6 audit reports – 2 from RSM (Consultant Job Plans and Financial Systems) closing off the 2015/16 cycle and the first 4 for 2016/17 from TIAA (in line with the plan)

#### RSM

Assignment	Opinion	Action agreed by priority		
		High	Medium	Low
Consultant Job Plans – Monitoring Compliance and Delivery	Amber/Red	1	2	2
Financial systems				
• General Ledger	Amber/Green	1	2	0
• Creditors	Amber/Green	0	4	0
• Charitable Funds	Amber/Green	1	1	2

#### TIAA

Assignment	Opinion	Action agreed by priority		
		Urgent	Important	Routine
Review of Cyber Security	Amber/Red	1	0	4
Financial Reporting and Budgeting	Amber/Green	0	2	4
Clinical Audit	Amber/Green	0	1	3
Review of Reference Costs	Amber/Green	0	1	4

**Consultant Job Plans – Monitoring Compliance and Delivery** – a partial assurance report with action needed to strengthen the control framework to ensure the area is effectively managed. The job planning cycle currently runs in arrear with very few job plans completed for 2015/16 and the 2016/17 process is at an early stage. Lack of job planning means resources may not be allocated efficiently leading to additional costs

and potential detriment to patient care. Management have agreed the recommendations and have plans in place to increase clinical engagement and improve processes to ensure job planning for 2017/18 is a prospective process. The Committee said that given the resource constraints at the Trust this was an area that needed to show significant improvement.

**Financial systems** – the report covered the three areas of General Ledger, Creditors and Charitable Funds all of which received a reasonable assurance opinion. The high priority recommendations related to the timely completion of bank and control account reconciliations and the proper and timely allocation of funds received to the charitable fund ledger. Management has agreed the points raise and has a timetable to address them.

**Review of Cyber Security** – a limited assurance opinion. The urgent action relates to reliance on a single data centre, which creates a single point of failure, operating at close to full capacity. This has been recognised as an issue for a number of years but resilience comes at a capital cost and other areas have taken priority. The Success Regime may provide a solution over time. The Head of IT is to present an analysis of options to the Finance and Resources Committee.

**Financial Reporting and Budgeting** – a reasonable assurance opinion on the systems and processes for agreeing, monitoring and reporting the annual budget and monthly performance.

**Clinical Audit** – a reasonable assurance opinion. The review focused on the outputs from Clinical Audit in ensuring adequate coverage and a review of the effectiveness of practices and methodology. There is currently a degree of inconsistency within the clinical directorates.

**Review of Reference Costs** – a reasonable assurance opinion to support the 2015/16 reference cost return. This is covered in more detail in item 4 below.

### Internal Audit Recommendations follow-up

The recommendations tracker has been reviewed and cleansed where appropriate. The detail has been transferred to the TIAA portal and reporting will in future be via that portal. Executives now review the outstanding actions monthly at the Corporate Governance Group. The outstanding actions by category are as follows

Recommendation category	Agreed	Completed	Proposed closed	Carried forward
High	8	4	0	4
Medium	15	3	1	11
Low	14	8	1	5
	<b>37</b>	<b>15</b>	<b>2</b>	<b>20</b>

15 of the carried forward actions are past their original due dates of which 4 are high priority. Responsible executives attended the Audit Committee meeting to explain progress on closing the high priority items.

#### 4 Reference costs

The 2015/16 reference cost return has been approved by the CFO, submitted and is compliant. An internal audit was conducted prior to submission and resulted in a reasonable assurance rating, highlighting the following:

- The quantum of costs has been determined accurately. Activity and cost adjustments have been made in line with national guidance
- Clinical and directorate engagement, although improved, requires additional impetus to ensure a greater level of accuracy in future
- Activity recorded on non-core systems eg community midwifery requires review to ensure data is accurate.
- The process of allocating costs to point of delivery and on to episode/attendance level is sound.
- A costing system (to replace spreadsheets) and properly resourced costing team is an important next step

We expect NHSI to audit our return for the 2016/17 financial year.

#### 5 Local Counter Fraud Service (“LCFS”)

The Committee received the LCFS annual report. The following issues were highlighted

- Conflict of interest work was deferred to 2016/17 as the Trust is implementing a new policy and procedures
- The NHS Protect self-review tool (SRT) was submitted before 31 May 2016 and resulted in an overall green rating

#### 6 Letter to Governors

EY presented their draft letter to Governors which explains the work done and conclusions reached for the year ended 31 March 2016 on the following main areas

Area of work	Conclusion
The Financial Statements	Unqualified opinion. No matters to report on the parts of the remuneration and staff report to be audited.
Governance Statement	Consistent with EY’s understanding of the Trust
Value for Money	Qualified value for money conclusion in relation to financial position and breach of licence
Quality report	Unqualified limited assurance opinion

The Committee asked EY to consider additional explanation in the value for money section focusing on the difficult external environment and the steps the Trust have taken in managing this.

The final letter will be presented at the AGM in September.

## **7 BAF review**

The Committee reviewed BAF risk 3 – Failure to meet performance targets and confirmed the current and target risk scores.

## **8 Areas for discussion**

- Clinical engagement
- Reference costs

## **9 Next steps**

- BAF methodology (deferred from this meeting)
- Review of external audit and tender exercise
- Progress on 2016/17 internal audit plan
- Fully functioning recommendations tracker

## **10 Recommendations**

The Board is asked to note this report and receive assurance