

**Board of Directors' Meeting Report – 28 February 2017**  
**Agenda item 16/17**

<b>Title</b>	Report from Audit Committee
<b>Sponsoring Director</b>	Mike Green, Non-Executive Director
<b>Authors</b>	Mike Green, Non-Executive Director
<b>Purpose</b>	To update the Trust Board on the meeting of the Audit Committee held on 22 February 2017
<b>Executive Summary</b> <ul style="list-style-type: none"> <li>• Internal audit workplan slightly behind schedule</li> <li>• Draft Head of Internal audit opinion is of reasonable assurance</li> <li>• 2017/18 internal audit plan requires further review</li> <li>• LCFS work on schedule, no outstanding fraud referrals</li> <li>• External audit plan received. Resource within finance department seen as a risk</li> <li>• Work on value for money to be completed as soon as possible</li> <li>• Draft Annual Governance Statement received</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>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 Internal Audit

#### Progress report

The Committee received 3 audit reports – slightly behind the audit plan. Two further audits reports – IG Toolkit and Complaints Management - have been issued in draft and currently have limited assurance opinions.

Assignment	Opinion	Action agreed by priority		
		Urgent	Important	Routine
Board Assurance Framework (BAF)	Reasonable	0	2	3
New income system	Reasonable	0	1	4
Medical Equipment Management Services (MEMS)	Limited	1	9	5

**BAF – a reasonable assurance opinion.** The mechanism for receiving assurances on the BAF was found to be robust and is complemented by a sound governance structure now in place. Areas to address include:

- Risks on the directorate and corporate risk registers are not linked to the Trust's strategic goals
- Gaps in controls, assurances and gaps in assurance are not always stated on the risk registers
- Negative assurances not always stated on the BAF

Management has agreed these recommendations and has plans to address them.

**New income system – a reasonable assurance opinion.** The introduction of the new system allows 95% of income to be processed through a centralised system. The issues raised related to:

- Additional staff being trained to make amendments to the rules template
- Formalised guidance for users
- Secondary uses Services (SUS) reconciliations

Management has agreed these recommendations and has plans to address them.

**MEMS a limited assurance opinion** – The MEMS system is well designed and managed but local compliance requires improvement. There is one urgent and nine important recommendations which relate to:

- Equipment marked as clean still being dirty (urgent)
- Consolidation of equipment in Theatres
- Access to instruction manuals
- Storage of equipment on wards/in corridors

- Compliance monitoring of training
- Patient discharge planning
- Return of equipment

The Committee was concerned with the time taken for management to provide responses to the auditors and the quality of the responses. As the Director of Estates and Facilities was not present at the meeting the Committee asked him to provide a written update on the issues, to be circulated within 2 weeks.

The Committee also asked that management responses in general be quality checked to ensure it was stated whether management agreed or disagreed with the recommendation, the action proposed was clear and addressed the issue, and there was a timescale to complete.

The Head of Internal Audit confirmed that at present, with a number of audits to be completed, a reasonable assurance opinion was likely for the year.

### Internal Audit Recommendations follow-up

There are still five recommendations outstanding from RSM audits despite the intention to close them all by 31 December 2016. Three of these are high priority of which 2 related to cancelled operations and one to clinical coding. Management and Internal Audit will review these recommendations to ensure it is clear what control improvements are planned and what management action is required with a view to closing these by the next meeting.

The agreed actions by category for TIAA reports (including those presented at this meeting) are as follows:

Recommendation category	Agreed
Urgent	3
Important	22
Routine	30
	<b>55</b>

20 actions have been implemented, 29 are not yet due and 6 are overdue. The overdue actions relate to reference costing and financial reporting and budget monitoring of which only one is important. This relates to improving clinicians understanding of costing and activity and has a revised date of end of May 2017.

### 3 Internal Audit Annual Plan

TIAA presented their internal audit plan for 2017/18.

Each review area has been linked back to a BAF risk to provide assurance. The areas to be reviewed have been agreed by area management but not by the Executive Management Team. The Committee asked for the following before the plan is agreed:

- Updated 3 year audit cycle to be circulated
- The balance between clinical and non-clinical areas is reviewed as there are only two clinical facing audits planned.
- A review of the clinical audit processes be considered to provide assurance
- The number of audits be reviewed (12 next year as opposed to 15 this year)

- Consideration be given to not repeating areas that have been audited this year other than through normal follow up
- Consideration be given to possible Success Regime changes which might influence scope and timing.

#### **4 Local Counter Fraud Specialist (LCFS)**

##### **Fraud and Bribery Risk Assessment. (FBRA)**

Since the last meeting the LCFS has undertaken a Level 2 – Departmental Fraud and Bribery Risk Assessment. The Trust was found to have largely robust processes and procedures in place to prevent, deter and detect fraud, however a number of key areas were identified which require greater management control or a revision to the current policies and procedures. There were 12 management actions (8 medium and 4 low) these include:

- No standalone gifts and hospitality policy
- Amendments to the gifts and hospitality form and declaration
- Amendments to the single waiver form
- Procurement policy
- Including fraud and bribery as a risk on the risk register.

Management has plans in place to address these issues.

##### **Progress report**

During the period the work has been delivered as planned and included the FBRA noted above and a review of declarations of interests for which a final report is awaited. Cyber-crime fraud has been elevated in the risk profile. There are no ongoing investigations into fraudulent activity. Three cases have been closed since the last report with no or minimal fraud established. The Committee asked that the annual report provided some metrics on awareness training course attendance.

##### **2017/8 workplan**

The LCFS presented the workplan for the next financial year. The same level of resource is proposed to the current year namely 50 days for proactive work and 10 days for reactive work. Reactive work may flex depending on requirements. Main areas to be covered include:

- Consultant planning
- Conflicts of interest
- Cyber
- Essex Success Regime

The workplan was approved.

#### **5 External Audit**

The Committee received the draft audit plan for the year end 31 March 2017. This sets out the work Ernst and Young (“EY”) will perform to provide the Trust with:

- An audit opinion on the financial statements
- A report by exception if the Trust has not put in place proper arrangements to secure value for money
- Assurance that the quality report has been prepared in accordance with Monitor’s guidance

The significant financial statement risks identified are:

- Fraud in recognising revenue and expenditure – this is a presumed risk in the public sector under auditing standards
- Risk of management override of controls – Internal Auditing Standards presume this to be a risk in all audits
- Agreement of balances with commissioners – current pressures within the NHS may mean that income recognised by the Trust is disputed by commissioners
- New income system
- Valuation of property, plant and equipment – no external valuation is being carried out in 2016/17
- Capacity to deliver financial statements within the required deadline – as a result of staff changes

Other issues to be considered are

- Assessment of going concern – taking into account financial plans, available funding and the activities of the Success Regime
- Continued consolidation of the SUHFT Charity

EY gave an update on the work required to arrive at the value for money opinion. This is report by exception and should focus on the arrangements put in place to secure value for money and not the actual outcomes which may be influenced by external factors. The Committee was keen for the work on this to be completed as soon as possible so sufficient time is given to consider the resultant opinion.

## **6 Draft Annual Governance Statement (“AGS”)**

The Committee undertook to provide comments via email to the Trust Secretary.

## **7 BAF review**

The Committee received an updated from the COO and reviewed BAF risk 3 – Failure to meet performance targets. Due to continued failure to meet performance targets the risk scores has been increased to 25. The target remains at 12. New trajectories have been agreed with Commissioners for the 3 targets and only Cancer is currently below the revised trajectory.

## **8 Oversight Committee**

The Committee noted the Terms of Reference of the ESR Oversight Committee. This Committee will meet quarterly and the Southend Audit Committee agenda will include a standard item to consider if any matters need to be referred to the Oversight Committee.

## **9 Effectiveness of External Audit**

The results of the review of the 2015/16 audit were presented. Generally the audit went well and the finance team felt the day to day communication was good. The main issued which had been discussed at the time related to the value for money opinion and accounts finalisation. These will be addressed in this year’s planning.

**10 Areas for discussion**

- MEMS
- 2017/18 Internal Audit workplan
- Non consolidation of SUHFT Charity

**11 Next steps**

- BAF methodology (deferred again as further work required)
- Annual Governance Statement including Head of Internal Audit opinion
- Audited Accounts including value for money opinion
- Completion of 2016/17 internal audit workplan

**12 Recommendations**

The Board is asked to note this report and receive assurance