

Board of Directors' Meeting Report – 5 September 2017
Agenda item 79i/17

Title	Report from Audit Committee
Sponsoring Director	Mike Green – Non -Executive
Authors	Mike Green – Non -Executive
Purpose	To update the Trust Board on the meetings of the Audit Committee held on 3 and 22 May 2017
Executive Summary	
<ul style="list-style-type: none"> • Issues in respect of Annual Report and Financial Statements were covered in a Part 2 report to the Board on 24 May 2017 • 2016/17 internal audit workplan almost complete • BDO appointed external auditors for 2017/18 year for 3 years • Declaration of interests policy to be developed • Reference cost processes approved 	
Related Trust Objective	All objectives through oversight of assurance process
Related Risk	All risks through oversight of the assurance process
Legal implications / regulatory requirements	Good governance demands an effective assurance framework monitored by the Board through the Audit Committee
Quality impact assessment	N/A
Equality impact assessment	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
Recommendations:	
The Board is asked to note this report and receive assurance	

Report from the Audit Committee

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 Year - end issues

At its meeting on 22 May 2017 the Committee received a presentation from Ernst & Young, the external auditors, on their year and work, the final head of internal audit opinion from TIAA, the internal auditors, and discussed the Annual Report and Financial Statements (including the Annual Governance Statement (“AGS”) and Quality Account). A report on the issues raised was included in the Part 2 meeting held on 24 May 2017 to inform the Board’s approval of the Annual Report and Financial Statements.

3 Internal Audit

Progress report

Work on the 2016/17 internal audit plan is almost complete with one report – Performance review still in draft with a reasonable assurance opinion. Six reports were presented:

Assignment	Opinion	Action agreed by priority		
		Urgent	Important	Routine
Complaints management	Limited	1	1	3
SI reporting	Limited	2	1	0
IG Toolkit V14	Limited	1	1	0
Key Financial Systems				
• Cash management and financial ledger	Substantial	0	0	0
• Accounts payable (AP) and accounts receivable (AR)	Limited	1	0	1
Data reporting	Substantial	0	0	1
<i>Performance Review (Draft)</i>	<i>Reasonable</i>	<i>TBC</i>	<i>TBC</i>	<i>TBC</i>

No reports have yet been issued against the 2017/18 plan

Complaints management - limited assurance. A complaints policy and procedure is in place and all correspondence relating to complaints is captured on Datix. Areas to address include:

- Provision of holding letters where investigations are delayed
- More consistent monitoring of action plans
- Translating actions into learnings

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

SI reporting - a limited assurance opinion. The Incident and Serious Incident Policy is valid until November 2017. The audit recommendations relate to:

- Compliance with the Early Management Report 2 day timetable
- Compliance with the 3 and 60 day reporting standards
- Dissemination of learnings

Management will address these issues by June 2017

IG Toolkit V14 – limited assurance. The audit was to provide assurance on the Trust's self-assessment against the Information Governance Toolkit. The Trust will not achieve level 2 due to training compliance being below 95%.

Key Financial Systems – cash management and financial ledger – substantial assurance. Sound control is in place for processing journals. Accounts are reconciled monthly and access to the financial ledger is restricted to appropriate personnel. No recommendations were identified.

Key financial systems – AP and AR – limited assurance. The review focused on the key controls in AP and AR. The urgent recommendation related to the lack of segregation of duties over supplier bank account amendments. This has now been addressed, however the Committee asked for some assurance that the identified control weakness had not resulted in fraud or misappropriation.

Data reporting – substantial assurance. The purpose of the review was to provide the Trust with assurance on the validity of the performance data presented in the key management reports. The recommendation related to the review of the Integrated Performance Report, before it is presented to the Board, given the change in management structure. This has now been addressed.

Annual report

There were a total of 16 assurance reports issued in the year (2015/16 – 11). None were rated red - no assurance, (2015/16 – none). 7 amber/red reports - limited assurance, (2015/6- 3) have been issued and these relate to:

- Cyber Security
- E-rostering/workforce utilisation
- Medical Equipment Management Services (MEMS)
- Complaints management
- SI reporting
- IG Toolkit V14
- Key financial systems – AP and AR

Two reports gave substantial assurance (2015/16 – 2)

A summary of all the reports for 2016/17 is included in the Appendix

Internal Audit Recommendations follow-up

The five remaining recommendations outstanding from RSM audits have now been closed.

The total number of recommendations made by TIAA during the year was 68 as follows:

Urgent	Important	Routine
8	25	35

47 actions have been implemented, 13 are not yet due and 8 are overdue. The overdue actions relate to reference costing (4), financial reporting and budget monitoring (2), MEMS (1) and Cyber security (1) of which two are urgent. These relate to:

- Cyber security – resilience of the network is still an issue with no funding available. FRC will be kept informed of progress of a Success Regime wide solution.
- MEMS – consistency of ward cleaning of equipment. The Committee asked for this to be cleared with some urgency and a recommendation has now been made to the Director of Estates to agree a solution based on a pilot.

The Committee reiterated that the responsible executive must attend the committee to explain why recommendations are overdue. A 3 month forward look of outstanding recommendations has been developed.

4 Local Counter Fraud Service (“LCFS”)

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

- The risk level for cyber-crime was elevated during the year
- The NHS Protect self-review tool (SRT) was submitted on 3 April 2017 and resulted in an overall amber rating. The LCFS aims to improve this rating in 2017/18
- 631 people completed the Trust’s Fraud and Bribery e-learning induction model.
- 6 fraud cases were closed during the year. There are no on-going cases.

The LCFS has completed a review of the Trust’s declaration of interests arrangements and has made the following recommendations:

- A declaration of interests policy should be implemented
- All authorised signatories should complete a declaration of interests form
- All consultants and doctors should complete a declaration of interests form
- All staff *b and above should complete a declaration of interests form.

Management have accepted these recommendations for completion by July 2017.

5 Reference costing

The Committee was presented with a report on the reference cost process for the 2016/17 return. This builds on the methodology used for the 2015/16 submission

which was reviewed by internal audit and was given a rating of limited assurance from an external review. A cost allocation system is to be implemented in time for the submission which is consistent with the action plan approved by NHSI following the adverse 2014/15 review. The processes were approved.

6 BAF review

The Committee reviewed BAF risk 3 – Failure to meet operational performance targets. The risk score remains at 25 given that the Trust is currently failing all 3 standards. However the Committee suggested that the risk score might be reduced as the Trust continues to meet its improvement trajectories.

The Committee also reviewed some minor updates to the BAF methodology. Given that risk processes are being discussed and developed within the Essex Success Regime (ESR) the Committee considered this to be work in progress and delayed approval until the ESR review is complete.

7 External audit

The current external auditors Ernst & Young (EY) have come to the end of their contract. An invitation to tender was sent out on the NHS East of England framework in which EY do not participate. Four bids were received and presentations were held with all bidders, on 14 April. BDO were selected by the panel which included representatives from the Audit Committee, finance, procurement and the governors. The Audit Committee recommended this selection to the Board and BDO were approved as the new auditors by the Governors on 24 May 2017.

8 Committee self-assessment

The results of the Committee self-assessment were reviewed. Generally the review was positive although there are some outlier scores relating to interaction with the external auditors and open channels of communication which will be followed up.

9 Areas for discussion

- Declaration of interests policy
- 2016/17 internal audit work-plan
- Reference costing

10 Next steps

- 2017/18 internal audit work-plan progress
- Reference cost submission
- External audit handover

11 Recommendations

The Board is asked to note this report and receive assurance

APPENDIX

Assignment	Opinion	Action agreed by priority		
		Urgent	Important	Routine
Review of Cyber Security	Limited	1	0	4
Financial Reporting and Budgeting	Reasonable	0	2	4
Clinical Audit	Reasonable	0	1	3
Review of Reference Costs	Reasonable	0	1	4
Agency	Reasonable	0	3	0
E-rostering/workforce utilisation	Limited	1	3	3
Board Assurance Framework (BAF)	Reasonable	0	2	3
New income system	Reasonable	0	1	4
Medical Equipment Management Services (MEMS)	Limited	1	9	5
Complaints management	Limited	1	1	3
SI reporting	Limited	2	1	0
IG Toolkit V14	Limited	1	1	0
Key Financial Systems				
<ul style="list-style-type: none"> • Cash management and financial ledger • Accounts payable (AP) and accounts receivable (AR) 	Substantial	0	0	0
	Limited	1	0	1
Data reporting	Substantial	0	0	1
Performance Review (Draft)	Reasonable	TBC	TBC	TBC