

Cover report to the Trust Board meeting to be held on 6 February 2020

Trust Board paper H

Report Title:	Audit Committee – Committee Chair’s Report (formal Minutes will be presented to the next Trust Board meeting)
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Reporting Committee:	Audit Committee
Chaired by:	Ms K Jenkins – Non-Executive Director
Lead Executive Director(s):	Simon Lazarus – Interim Chief Financial Officer
Date of meeting:	24 January 2020

Account of key public matters considered by the Committee and any related decisions made:

This report provides a summary of the key public issues considered at the Audit Committee on 24 January 2020:

- **Review of prime financial and accounting policies** –following the requested review of UHL accounting policies, the Interim Chief Financial Officer proposed that the current *de minimis* approach be removed for system-generated accruals and that the *de minimis* level for manual accruals be reduced to £5k from the current level of £15k. At the request of the Audit Committee Non-Executive Director Chair, External Audit advised that this was in line with practice at other Trusts. As requested by the Finance and Investment Committee (FIC) the report also briefed the Audit Committee on UHL’s policy for bad debt provision, and confirmed (in response to a query from the FIC Non-Executive Director Chair) that UHL had implemented IFRS9 in 2018/19 in respect of non-NHS debts. In discussion, the FIC Non-Executive Director Chair noted that much of the debt profile related to NHS debts. In further discussion on bad debt provision, the FIC Non-Executive Director Chair requested that salary overpayments be added to the table for adjustments to specific categories of debt – the Audit Committee Non-Executive Director Chair suggested that this would be covered in the ‘misc’ column of that table already and advised that this issue should be reviewed by the Finance and Investment Committee if further discussion was required, and any resulting proposed changes advised to the Audit Committee accordingly. The Audit Committee Non-Executive Director Chair noted that the Trust can and should write off bad debts once known.
The proposed removal of the *de minimis* policy for system generated accruals and the reduction in *de minimis* from £15k - £5k for manual accruals were endorsed by the Audit Committee and recommended for Trust Board approval.
- **Action log from previous Audit Committee meetings** – in considering the actions listed, the Non-Executive Director Chair of the People, Process and Performance Committee (PPPC) voiced concern that actions were being delayed *en route* to Board Committees as a result of having to be considered at Executive Board meetings first. Views varied on this issue, with the Quality and Outcomes Committee (QOC) Non-Executive Director Chair noting that although undue delay should be avoided, a prior Executive review was often useful, and the Audit Committee Non-Executive Director Chair considering that there had been no adverse impact on Audit Committee items. If Committee Chairs have concerns with timeliness of actions, this should be addressed at the relevant Committee.
- **Deep dive into Board Assurance Framework Principal Risk (PR) 5 ‘failure to recruit, develop and retain a workforce of sufficient quantity and skills’** – the Risk and Assurance Manager, the Director of People and OD and the Deputy Director of HR attended for this item. The Director of People and OD advised that workforce challenges were recognised as a key pressure for both UHL and the wider NHS as a whole, with UHL’s People Strategy developed in 2018 as a way of improving the Trust’s recruitment and retention, workforce culture, development and management. The rating for PR 5 currently stood at 20 and based on the KPIs for this risk, the Director of People and OD was confident that the score would reduce to the 2019/20 quarter 4 target level of 16. The Audit Committee Non-Executive Director Chair queried whether the effectiveness of the controls listed on the Board Assurance Framework was assessed, and requested that this be discussed at a future Audit Committee meeting. In discussion on PR5, the PPPC Non-Executive Director Chair noted his view that the Trust was not reviewing the [self-imposed at Trust and national NHS level] barriers to recruitment, citing a specific example of overseas recruitment on which he now received assurance. The Audit Committee Non-Executive Director Chair requested that ‘barriers to recruitment’ be included as a driver in PR5 together with the related controls/assurance

mechanisms – and it was agreed that this aspect would also be explored further at the People, Process and Performance Committee (discussions on international nurse recruitment were also planned for the February 2020 Trust Board thinking day). In response to a query from the QOC Non-Executive Director Chair, the Director of People and OD advised that she was not adequately resourced to deliver the UHL People Strategy, given the size of the agenda and the number of national imperatives. Although noting that further HR resource had recently been agreed through the reconfiguration programme, and recognising the finite resources available generally, the Audit Committee noted the need for transparency on what could/could not be delivered with the current resource, so that expectations could be appropriately managed – this issue would be progressed through PPPC. The Director of Corporate and Legal Affairs noted that the current Board Assurance Framework entry did not articulate gaps in resourcing as an internal gap in controls, and advised that this – and the remedial actions planned – should be added.

Detailed discussion then took place on the 6 questions asked of the Audit Committee in the report, to assess that Committee's level of assurance that a robust system of risk was in place to manage PR5. The PPPC Non-Executive Director Chair commented that the current title of PR5 contained no reference to either timescale or organisational need – the Director of People and OD and the Director of Corporate and Legal Affairs agreed to consider therefore whether the existing title remained fit for purpose. Subject to the comments already made, the Audit Committee considered that both the systems and processes in place to control the risk were described, that gaps in control had been identified, and that PR5 was supported by good internal and external sources and lines of assurance. With regard to whether the relevant Board Committee agenda was appropriately focused on PR5, the PPPC Chair advised that this was not specifically on the PPPC agenda and that he was not currently assured. Noting that PR5 was discussed at each bi-monthly Executive People and Culture Board, the Director of People and OD agreed to bring the resulting report to the immediately-following PPPC. Some quality and safety related workforce issues (eg nurse staffing reports) were reported to QOC rather than PPPC. Noting that workforce issues were often pressured on the PPPC agenda, Non-Executive Directors noted that a wider discussion paper on Board Committee and Executive Board structures and business was already being prepared by the Director of Corporate and Legal Affairs. The QOC Non-Executive Director Chair particularly commented on the very large number of subgroups ultimately reporting through to QOC. The Audit Committee Non-Executive Director Chair emphasised the need for a living, evolving Board Assurance Framework, and she requested further clarity on which elements of the various Principal Risks fed through to which Executive Board and Board Committee, which would be done as part of the aforementioned review. The Audit Committee Non-Executive Director Chair also noted the need for Committee agendas to be risk-based. In terms of whether the risk rating for PR5 was realistic, the PPPC Non-Executive Director Chair queried the likelihood of achieving the target score of 16 – in response, the Director of People and OD advised that a Trust Board thinking day had challenged BAF assumptions and targets, and found them to be realistic at that point. At the request of the Audit Committee Non-Executive Director Chair, the Director of People and OD agreed to share the basis for her confidence in achieving that (eg KPI progress etc – information to be circulated after the meeting). The Audit Committee Non-Executive Director Chair also noted the need to revisit the Trust's risk appetite, which was planned for the March 2020 Trust Board thinking day. With regard to the last of the 6 questions in the report, the Audit Committee Non-Executive Director Chair noted the need to test the effectiveness of the controls, as mentioned in earlier discussion. Following due consideration, the Audit Committee declared its view that the system of controls in place to manage PR5 was *generally satisfactory with some improvements required*.

- **External Audit progress report** – External Audit noted their wish to withdraw this report in light of the need for further revisions. External Audit provided assurance, however, that certain elements would remain unchanged (eg the planned Quality Account audit would be undertaken in the same way as outlined in the current version of the plan).
- **Integrated Risk Report and Board Assurance Framework (BAF) 2019/20** – the Director of Safety and Risk and the Risk and Assurance Manager attended for this item, noting work underway [i] for the risk appetite discussion at the March 2020 Trust Board thinking day, and [ii] regarding longstanding risks especially those with high risk scores (appendix 5 of the report). The Audit Committee Non-Executive Director Chair requested that the next iteration of the tabulated new risks include their identified risk owners, target dates, and any actions already taken (with their dates). She also requested that consideration be given to introducing an 'amber' rating with a specifically-defined range, rather than the current binary red/green rating. It was noted that Principal Risk 9 (*failure to meet the financial control total including through improved productivity*) was scheduled for review at the January 2020 Executive Performance Board, and would be reflected accordingly in the February 2020 Trust Board report. In further discussion on the report, the PPPC Non-Executive Director Chair requested that where a year-end change in risk score was shown, an accompanying rationale also be included to justify the improved position – this was agreed to be included going forward, noting that information on that was already sought via the proforma sent to risk owners.
- **Internal Audit progress report** – the report updated the Audit Committee on the work of Internal Audit since November 2019. Four final reports were discussed in detail in the 'Internal Audit Reviews' item below. The Audit

Committee Non-Executive Director Chair and the QOC Non-Executive Director Chair voiced significant concern over the number of actions outstanding from Internal Audit reviews, as shown in the 'follow-up' section of the report, and sought information from the Head of Procurement and Supplies (in attendance for the Discretionary Procurement action report below) on the reason for his outstanding actions, which the Deputy Chief Financial Officer agreed to pursue outside the meeting. Executive Directors acknowledged that the level of outstanding actions was unacceptable. The Director of Corporate and Legal Affairs explained why he no longer provided a separate explanatory report on these actions to the Audit Committee (to avoid duplication and time discrepancies with the Internal Audit paper), and he also advised that the Executive Planning Meeting which usually reviewed these actions had been necessarily diverted by other business; although noting this rationale the Audit Committee Non-Executive Director Chair remained unconvinced. In light of her concerns over progress, the Audit Committee Non-Executive Director Chair requested that the Executive Director owner of each report provide the Audit Committee with an update on each of their actions within 1 week. She also noted her intention to highlight this issue to the public Trust Board. Internal Audit were also requested to include audit finding references and a description of what was missing to close the action, in all future such reports. The Audit Committee Non-Executive Director Chair did not agree, however, with a suggestion from the PPPC Non-Executive Director Chair that the outstanding actions be included individually in the Audit Committee action log.

The issue of outstanding actions from Internal Audit reports is highlighted to the Trust Board for information.

- **Internal Audit reviews** – two final reports and two draft reports had been issued since November 2019; as these were either medium or high risk rated reviews they were now discussed individually by the Audit Committee with representatives of the Executive owner present:

[i] **compliance within IT Data Centres** (high risk) – the MBP Infrastructure Manager and the IM&T Enterprise Infrastructure Architect attended. IT issues had been discussed in detail at the November 2018 Trust Board thinking day, where the need for investment in data centre management had also been highlighted. In response to queries from the Audit Committee Non-Executive Director Chair, the attendees confirmed that the Internal Audit review related to on-site UHL data centres, and they explained the location and access features of these. Noting the ambition of achieving tier 3 status, the QOC and PPPC Non-Executive Director Chairs emphasised the need for the data centres to feature appropriately in UHL's reconfiguration programme, including generator replacement at an early point. They also noted the need for the Finance and Investment Committee to bear this in mind when reviewing the data centre business case. The Audit Committee Non-Executive Director Chair sought further assurance on data recovery and failsafes, noting her view that although individual key systems were covered, the lack of an automatic switchover for the data centre as a whole was a key risk. She considered that assurance had been provided, however, about the risk issues in the report re: back-up timeliness. In response to a query on data security, Internal Audit advised that resilience had not been tested although physical access issues had been. The MBP Infrastructure Manager also provided assurance that points 1 and 2 of the specific high risk action 1 in the report had already been actioned (re: battery states). The PPPC Non-Executive Director Chair requested that a detailed project plan be developed for addressing the findings of this Internal Audit report, containing timelines. This led on to a further discussion in which the Audit Committee Non-Executive Director Chair requested that milestone dates be included in all future Internal Audit reports, for each action contained – it was agreed to trial this accordingly.

[ii] **safety checks in ED** (medium risk) – the Deputy Chief Operating Officer and the Head of Nursing ED attended. The report had reviewed the use of the safety checklist in ED, and Internal Audit advised that the initial planned review had been deferred while awaiting electronic roll-out of that checklist – due to a further delay in roll-out (now scheduled for 4 months' time: May 2020) the review had been undertaken of the current situation – this context was relevant because many of the resulting recommendations related to the manual nature of the process. Internal Audit felt that the position would change once the electronic checklist was implemented. The Audit Committee Non-Executive Director Chair requested assurance on whether electronic roll-out would address the risks in the report, and on how those risks were being managed in the interim period – this latter point was responded to by the Head of Nursing ED, who also clarified that the report related to documentation of care not the giving of that care. She advised that the checklist was audited every month, and that those audit metrics had recently been made more stringent. The QOC Non-Executive Director Chair voiced his wish for NerveCentre to contain a failsafe mechanism by which the patient could not progress unless the safety checklist had been completed. Although noting the remedial actions now outlined by the Deputy Chief Operating Officer, the PPPC Non-Executive Director Chair emphasised his concerns that the control document – if that was the role of the safety checklist – was not currently being completed to demonstrate that the patient had been treated safely. He also commented on the risks associated with systems in transition. Given the safety nature of the findings, the QOC Non-Executive Director Chair proposed that QOC now take ownership of the issues within the Internal Audit review. He agreed to progress this accordingly with the Medical Director and the Chief Nurse and seek an interim report from them for the February 2020 QOC focusing on the safety measures currently in place, with a follow-up report then in May/June 2020 on the new electronic system including the requested failsafe. The Audit Committee Non-Executive Director Chair noted that the Audit Committee recognised the risk and was happy for the issues to

be progressed through QOC. She reiterated the need, however, to action the findings from Internal Audit reports.

[iii] **service line management/PLICS** (medium risk) – Internal Audit considered that progress had been made since their previous review of service line *reporting* in 2015/16, and that the use of IQVIA should enable UHL to move forward. Issues remained, however, re: engagement and use. The Audit Committee Non-Executive Director Chair requested that reports explicitly identify who was the Executive Lead for each one.

[iv] **financial systems 2019/20** (medium risk) – 4 main areas had been reviewed: control account reconciliations; salary overpayments and private patient income; follow-up on cash management findings, and purchase to pay data analytics. The high risk finding related to private patient debts, and was primarily a resourcing issue. In discussion on the report, the Audit Committee Non-Executive Director Chair queried whether any reconciliation was done between the forecast and the balance sheet, by either Internal or External Audit, and she sought assurance that the numbers in the report were consistent with those reported to FIC. In response to a further query from the PPPC Non-Executive Director Chair re: private patient debts over 365 days, the Interim Chief Financial Officer noted his intention to engage a specialist external company to improve the position. The PPPC Non-Executive Director Chair welcomed the 'low' risk findings on cash management.

- **Counter Fraud progress report** – the Audit Committee discussed the Counter Fraud progress report for January 2020, noting that work was on schedule. The Audit Committee Non-Executive Director thanked the outgoing Local Counter Fraud Specialist for his work, noting that this was his last UHL Audit Committee meeting. The Audit Committee welcomed the progress made on the NFI exercise, including contact from the Trust's payroll lead.
- **Discretionary procurement actions** – the Head of Procurement and Supplies attended for this report, which listed all instances in which regular procurement processes had been waived in the period November 2019 – January 2020. This information was presented to the Audit Committee for transparency in line with the requirements of the Trust's Standing Orders. The FIC Non-Executive Director Chair commented that the list seemed to be increasing, and the Head of Procurement and Supplies agreed to include trend information in the next report. Non-Executive Directors queried whether a threshold of £25k was too low, and the Audit Committee Non-Executive Director Chair requested that – after the annual accounts work had concluded – an Audit Committee session be scheduled to look at the 'procurement journey' and the controls in place. The PPPC Non-Executive Director Chair also requested that in future reports, discretionary procurement actions be listed by value rather than date.

Items for noting

- **Quality and Outcomes Committee minutes 24.10.19 and 28.11.19**
- **People, Process and Performance Committee minutes 24.10.19 and 28.11.19**
- **Finance and Investment Committee minutes 31.10.19 and 28.11.19**
- **Charitable Funds Committee minutes 5.12.19.**

Public matters requiring Trust Board consideration and/or approval:

Recommendations for approval:-

- Review of prime financial and accounting policies (removal of the *de minimis* policy for system generated accruals and reduction in *de minimis* from £15k - £5k for manual accruals).

Public items highlighted to the Trust Board from this meeting:-

- Internal Audit progress report (outstanding actions from Internal Audit reports)

Public matters referred to other Committees:

- Board Assurance Framework principal risk (PR) 5: referred to **People, Process and Performance Committee**
- Safety checks in ED – Internal Audit report: referred to **Quality and Outcomes Committee**

Date of next meeting:

6 March 2020