

Trust Board paper J1

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST
REPORT BY TRUST BOARD COMMITTEE TO TRUST BOARD

DATE OF TRUST BOARD MEETING: 3 June 2021

COMMITTEE: Audit Committee

CHAIR: Mr M Williams, Non-Executive Director and Audit Committee Chair

DATE OF COMMITTEE MEETING: 17 May 2021

RECOMMENDATIONS MADE BY THE COMMITTEE FOR CONSIDERATION BY THE PUBLIC TRUST BOARD:

- None

OTHER KEY ISSUES IDENTIFIED BY THE COMMITTEE FOR NOTING BY THE PUBLIC TRUST BOARD:

- Internal Audit Review of Payroll (Minute 42/21/2 refers)

DATE OF NEXT COMMITTEE MEETING: 21 June 2021

Mr M Williams
Non-Executive Director and Audit Committee Chair

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

MINUTES OF AN AUDIT COMMITTEE MEETING HELD ON MONDAY 17 MAY 2021 AT 9.00AM

(held virtually via Microsoft Teams)

Present: Mr M Williams – Non-Executive Director (Chair)
Ms V Bailey – Non-Executive Director, and Chair of the Quality and Outcomes Committee
Col (Ret'd) I Crowe – Non-Executive Director, and Chair of the People, Process and Performance Committee
Mr A Johnson – Non-Executive Director, and Chair of the Finance and Investment Committee

In Attendance: Ms A Breadon – PwC (the Trust's Internal Auditor) (excluding Minute 36/21)
Mr M Brice – Deputy Financial Improvement Director (excluding Minute 36/21)
Ms D Briggs – Interim Associate Director of Finance (for Minute 41/21/4)
Ms A Clarke – Local Counter-Fraud Specialist, PwC (excluding Minute 36/21)
Mr S Linthwaite – Deputy Director of Finance (Financial Services) (excluding Minute 36/21)
Ms E Mayne – Grant Thornton (the Trust's External Auditor) (excluding Minute 36/21)
Mr I Orrell – Associate Non-Executive Director (observing) (excluding Minute 36/21)
Ms K Rayns – Corporate and Committee Services Officer
Mr P Rogers – Senior Project Manager (for Minute 42/21/2)
Mr M Stocks – Grant Thornton (the Trust's External Auditor) (for Minutes 37/21 to 41/21/3 inclusive)
Mr S Ward – Director of Corporate and Legal Affairs
Ms C Wood – PwC (the Trust's Internal Auditor) (excluding Minute 36/21)
Ms H Wyton – Chief People Officer (for Minute 42/21/2)

RESOLVED ITEMS

ACTION

36/21 DISCUSSIONS IN THE ABSENCE OF EXTERNAL AUDIT AND INTERNAL AUDIT REPRESENTATIVES

36/21/1 Confidential Verbal Report by the Non-Executive Director Audit Committee Chair and the Director of Corporate and Legal Affairs

Resolved – that this Minute be classed as confidential and taken in private accordingly.

36/21/2 Audit Committee Confidential Minutes

Resolved – that the confidential Minutes of the Audit Committee meeting held on 19 April 2021 (paper A) be confirmed as a correct record.

36/21/3 Audit Committee Confidential Matters Arising

Resolved – that the confidential matters arising report be received and noted as paper B.

37/21 WELCOME AND APOLOGIES FOR ABSENCE

The Audit Committee Non-Executive Chair welcomed everyone to the meeting, noting that Mr I Orrell, Associate Non-Executive Director was attending as an observer. Apologies for absence were received from Mr R Cooper, Financial Improvement Director and Mr J Shuter, Director of Operational Finance.

38/21 DECLARATIONS OF INTERESTS

Mr A Johnson, Non-Executive Director declared his role as Non-Executive Director Chair of Trust Group Holdings Ltd (TGH) and the Chief Financial Officer declared his role as Non-Executive Director of TGH. With the agreement of the Audit Committee, these individuals remained present.

Resolved – that the position be noted.

39/21 MINUTES

Resolved – that the Minutes of the 19 April 2021 Audit Committee (papers C and C1) be confirmed as correct records.

40/21 MATTERS ARISING REPORT

Paper D provided a summary of the matters arising from the 19 April 2021 Audit Committee and outstanding matters arising from previous Audit Committee meetings. In respect of item 8 (Minute 18/21/2 of 5 March 2021 refers), it was noted that an update on the process surrounding accounting estimates would be provided to the Audit Committee meeting on 21 June 2021.

Resolved – that the matters arising report (paper D) and the additional information provided above be noted.

41/21 KEY ISSUES FOR DISCUSSION/DECISION

41/21/1 Confidential Report by the Deputy Financial Improvement Director

Resolved – that this Minute be classed as confidential and taken in private accordingly.

41/21/2 Confidential Report by External Audit

Resolved – that this Minute be classed as confidential and taken in private accordingly.

41/21/3 Update on the Management Response to the draft Audit Findings Report 2019/20

Further to Minute 30/21/2 of 19 April 2021, the Deputy Financial Improvement Director introduced paper F, updating the Audit Committee on progress of the corrective actions to address the control weaknesses highlighted in the External Auditor's draft Audit Findings Report (AFR) 2019/20. Appendix A set out the completed management actions and appendix B described the current status of the non-completed items. A summary of progress against External Audit's prior-year recommendations (2018/19) was provided at appendix C. Six of the actions in appendix B were currently overdue (as highlighted in section 2 of the main paper). The Deputy Financial Improvement Director provided a short overview of each of these (including the reasons for delay, current status and next steps for completing each of these actions).

In respect of action 14.1, the Deputy Director of Finance (Financial Services) briefed the Audit Committee on progress with the control accounts process, noting that these had now been produced for month 12 of 2020/21 and were being validated. A control account 'dashboard' had been created which detailed the clear accountability arrangements for preparing, reviewing and approving the control accounts with tracking against the timetable (including a comprehensive review of the balance sheet and every code which it contained) and a RAG-rating system to enable the Audit Committee to monitor the most appropriate actions each month, eg those systems which fed into the general ledger surrounding payroll, accounts payable and accounts receivable. The Non-Executive Director Audit Committee Chair noted that control accounts in relation to payroll would be discussed later in the meeting when the Committee reviewed the Internal Audit of Payroll (Minute 42/21/2 below refers), commenting that reconciliation of payroll and non-payroll costs was an important area of work in respect of ensuring the fundamental integrity of the numbers. The Deputy Director of Finance (Financial Services) agreed with this point, highlighting a change in the way that the control accounts were being presented to provide clarity that they were not simply downloaded from the ledger, but the information was being presented using more meaningful terminology with month-on-month trends being identified.

The Deputy Financial Improvement Director continued to brief the Audit Committee on progress of the six actions in appendix B which were currently overdue. In respect of VAT principles, appropriate controls were in place and the risk of incorrect accounting for VAT was being mitigated by employing the services of VAT Liaison, who conducted regular third party reviews. A draft VAT policy had been incorporated into the draft Standing Financial Instructions (SFIs), but this action would not be marked as completed until the revised SFIs

had been issued. The number of journals had increased for month 12 of 2020/21 as would usually be expected, but these had all been subjected to the same rigorous assurance process. Training and education packages continued to be delivered going forwards.

Ms V Bailey, Non-Executive Director thanked the Chief Financial Officer, Deputy Financial Improvement Director, and Deputy Director of Finance (Financial Services) for their overall leadership in strengthening UHL's financial governance. Recognising that the ongoing accounts work was the absolute current priority, she sought and received assurance that the next phase would include describing the 'business as usual' controls and mitigations that would be put in place to prevent staff from reverting back to previous practices and behaviours. The Non-Executive Director Audit Committee Chair requested an update on the development of the revised SFIs and Scheme of Delegation. In response, the Deputy Financial Improvement advised that the finalised SFIs would be updated to reflect the outcomes of the Board Development Programme which was currently ongoing. In the meantime, other work was taking place to ensure that the SFIs reflected procurement processes such as 'procure to pay' and aligned with the training and education packages for finance staff and budget holders. The Director of Corporate and Legal Affairs confirmed that the Deputy Financial Improvement Director had accurately described the current position with the development of the new SFIs.

Mr A Johnson, Non-Executive Director queried whether any of the incomplete or overdue actions contained in appendix B were likely to have any impact on the timescale for producing and auditing of the final 2019/20 and 2020/21 Accounts. In response, the Deputy Financial Improvement Director confirmed that a systematic review had already been undertaken in respect of the timeline for delivering the final Accounts, but a further review was also being undertaken to ensure that each workstream was embedded and supported by the appropriate resources with sufficient capacity in the light of this new timetable.

Resolved – that the update on the Management Response to the draft Audit Findings Report 2019/20 be received and noted as paper D.

41/21/4 Confidential Report by the Interim Associate Director of Finance

Resolved – that this Minute be classed as confidential and taken in private accordingly.

42/21 ITEMS FOR ASSURANCE

42/21/1 Internal Audit Progress Report 2020/21

Ms A Breadon, Internal Audit introduced paper I1, providing a progress report on the Internal Audit plan for 2020/21, noting that three reports had been finalised and now featured later on today's agenda (Minutes 42/21/2 to 42/21/4 inclusive below refer). The finalised 2021/22 Internal Audit Plan was appended to paper I1 for completeness. The fieldwork for the reviews of Risk Management, Contract Management and Sustainability continued and it was expected that these reports would be available for the 21 June 2021 Audit Committee. The draft Head of Internal Audit Opinion for 2020/21 was also due to be presented to the June 2021 Audit Committee. Some delay had been experienced in commencing the fieldwork for the Salary Maxing review and Internal Audit had been liaising with the Payroll team in respect of the arrangements for the salary sacrifice scheme relating to residential accommodation.

Particular discussion took place regarding the number of actions overdue and outstanding from previous Internal Audit reviews and the expectation that a significant proportion of these could be completed and signed-off prior to the issue of the Draft Head of Internal Audit Opinion. Responding to a question from the Non-Executive Director Audit Committee Chair, the Director of Corporate and Legal Affairs provided an overview of the process for monitoring these actions via the Executive Planning Meetings and involving the relevant Executive Directors in the escalation process for closing down these actions or requesting formal extensions where appropriate. The Corporate and Committee Services Manager was liaising with Internal Audit in relation to some technical challenges associated with uploading the required evidence onto the TrAction system. Noting that one of the actions arising from the 2018/19 Internal Audit review of financial systems was now 433 days overdue, the Non-Executive Director Audit Committee Chair queried whether the action was still necessary or required. Audit Committee members noted that all actions were discussed and agreed with the relevant responsible

officers at the time of completion. Mr A Johnson, Non-Executive Director noted that the cash position over the last 12 months was likely to change in 2021/22 and that this might create additional challenges within financial systems going forwards. Ms V Bailey, Non-Executive Director emphasised the need for the responsible officers to review whether Internal Audit recommendations were deliverable and achievable at the time of issuing the reports, also suggesting that the outstanding actions should be reviewed to determine whether they were still valid rather than just 'chasing' them for completion.

Resolved – that the Internal Audit progress report be received and noted as paper I1.

42/21/2 Internal Audit Review of Payroll – Medium Risk

Ms C Wood, Internal Audit introduced paper I2, detailing the findings of the Internal Audit review of Payroll which had been classified as a medium risk overall, reflecting 4 medium risk findings and 1 low risk finding. Ms H Wyton, Chief People Officer and Mr P Rogers, Senior Project Manager attended the virtual meeting for this discussion. Ms Wood provided a short overview of the identified areas for improvement in relation to control account reconciliations, paper forms, manual processes, starter and leaver testing, and payroll provider assurance. In respect of the latter item, particular discussion took place regarding the payroll provider's assurance report on internal controls which had excluded the NHS team due to the potential impact on services. Since then, the service had transferred from Equiniti to Civica as part of a wider acquisition and the Trust was now seeking assurance from Civica on their assurance process for the effective operation of payroll controls going forwards. Once available, this information would be shared with the Executive People and Culture Board (EPCB), the People Process and Performance Committee (PPPC), and the Audit Committee.

The Chief People Officer advised that she and her team had welcomed the Internal Audit Review, confirming that they were comfortable with the findings and the recommendations for future action. She briefed the Audit Committee on the acquisition of Equiniti's NHS payroll services by Civica, confirming that the existing staff had been transferred to the new provider and that a more professional relationship was now in place which was expected to deliver further service improvements. In the last two and a half years, significant progress had been made with improving the due diligence and quality of payroll services and the improvement trajectory had been achieved with payroll accuracy now standing at 99.9%. The associated assurance reports to PPPC had been stood down from a quarterly basis to an annual basis. Progress was still being made with the historical issues which had arisen prior to the contract being awarded to Equiniti. As part of the Workforce Efficiency Programme, the Trust was focusing upon moving more paper process to electronic. The temporary staffing function was being transferred from the Nursing Directorate to the People Services Directorate and the temporary staffing processes were being re-designed to align with the payroll and recruitment processes.

Col (Ret'd) I Crowe, Non-Executive Director commented upon the significant improvements already delivered within the payroll service, highlighting the need for a continued focus on streamlining the process for timely notification of staff leaving the Trust in order to reduce the risk of overpayments and to remove individuals' access to IT systems for reasons of data security. The Chief People Officer confirmed that progress of this workstream would be reported to PPPC through the regular highlight reports arising from the Workforce Efficiency Programme. Responding to a number of queries from the Non-Executive Director Audit Committee Chair, the Senior Project Manager briefed the Audit Committee on the payroll provider's arrangements for disaster recovery and mitigation plans. He also provided some background information on the number of NHS Trusts which were currently using Civica as their payroll provider and the available alternative solutions for NHS payroll provision, via in-house services, shared NHS services and commercial providers. The Deputy Director of Finance (Financial Services) offered his support in respect of obtaining benchmarking data for the cost of payroll services and the Chief People Officer highlighted that the overall benchmarking data for UHL's People Services Directorate fell into the lower quartile, but the payroll service fell into the medium range due to the additional resources currently being used to support this area. She also noted that some additional interim resources within the People Services Directorate were expected to distort the Directorate's benchmarking data over the next twelve months.

CPO

Resolved – that (A) the Internal Audit review of Payroll be received and noted as paper I2, and

(B) progress of changes to payroll processes (including leavers processes and removal of access to IT systems) to be reported to the People, Process and Performance Committee (within the regular highlight reports arising from the Workforce Efficiency Programme).

CPO

42/21/3 Confidential Report by Internal Audit

Resolved – that this Minute be classed as confidential and taken in private accordingly.

42/21/4 Internal Audit Review of Accounts Payable Phase 2 – not risk rated

Ms A Breadon, Internal Audit introduced paper I4, detailing the findings and recommendations arising from the follow-up review of the process and controls in place for accounts payable, and the analysis of data over a sample purchase to payment expenditure cycle. She highlighted a significant improvement in the Trust's performance for paying suppliers early, which reflected a strong cash position. The number and value of invoices paid without a purchase order was comparable to the previous two years. The purchase to pay data analysis had identified a number of discrepancies where the value of the invoice did not reconcile with the value of the purchase order and some 'red flag' areas of particular focus were identified in appendix A for further review by the Trust to establish the reasons for those variances.

The Deputy Financial Improvement Director briefed the Audit Committee on the recent establishment of a Purchase to Pay working group and the key dependencies between strengthening resources, revising the Standing Financial Instructions (SFIs), and linking this to the training and education package for the wider organisation. He confirmed that a management action plan was being developed to address the findings and recommendations arising from this Internal Audit review and he requested that Internal Audit implemented a programme of six-monthly rolling reviews of the purchase to pay data, to measure whether any improvements were being delivered going forwards.

The Non-Executive Director Audit Committee Chair and Mr A Johnson, Non-Executive Director both expressed a sense of frustration about the timescale for implementing a purchase to pay process at UHL. Discussion took place about the scope to implement a robust policy of 'no purchase order – no payment', but the Chief Financial Officer cautioned that this would have to be managed extremely carefully to ensure that it did not impact upon the quality of care for patients (eg the procurement of urgent clinical supplies in theatres). The Deputy Director of Finance (Financial Services) supported this point, noting that it would be crucial to ensure that appropriate awareness was in place for the Trust's suppliers as well as the organisational teams.

Resolved – that (A) the Internal Audit review of Accounts Payable be received and noted as paper I4, and

(B) the Deputy Director of Finance (Financial Services) be requested to provide a report on the management actions to address the findings of the Accounts Payable review to a future Audit Committee meeting, and

DDF(FS)

(C) Internal Audit be requested to undertake a rolling six-month review of UHL's purchase to pay data to measure whether any improvements in performance were being delivered.

IA

42/21/5 Local Counter Fraud Specialist Annual Report 2020/21

Ms A Clarke, Local Counter Fraud Specialist, presented paper J1, providing her annual report for 2020/21 and the draft Counter Fraud Functional Standard Return (CFFSR) which was due to be submitted to the NHS Counter Fraud Authority by 31 May 2021. Audit Committee members noted that there was only one open counter fraud case (reference UHL1906) and that this was being carried forward to the 2021/22 financial year. As requested at the last meeting, the report included some benchmarking data on the number of counter fraud referrals

to enable a comparison with other Acute Teaching Trusts with a similar number of employees and similarly sized budgets. This benchmarking data was welcomed by the Committee and it was agreed that this would be provided on a regular basis going forwards.

The Counter Fraud Functional Standard Return (CFFSR) was provided at appendix B, setting out the requirements of each functional standard, together with UHL's current ratings, the reasons for each rating, and the actions due to be taken during 2021/22 to achieve compliance. As the Functional Standards had only been published in January 2021, there was little expectation that Trusts would be fully compliant at the end of May 2021. The NHS Counter Fraud Authority had therefore advised that this would be treated as a transitional year. Since the report had been prepared, compliance with Functional Standards 1A and 1B had been confirmed and these would be re-rated as green prior to submission.

The Fraud Awareness Quiz had been circulated within staff newsletters in February 2021 and a follow-up email notification had been issued. The quiz had been completed by 131 members of staff which was an improvement on the previous year, when only 27 staff had completed this quiz. The Local Counter Fraud Specialist confirmed that she had met with the Director of Corporate and Legal Affairs to discuss some further work required surrounding Conflicts of Interest in the light of the new Functional Standards. The Non-Executive Director Audit Committee Chair thanked the Local Counter Fraud Specialist for providing such a comprehensive annual report.

Resolved – that the Counter-Fraud Annual Report for 2020/21 be approved (as presented in paper J1).

42/21/6 Local Counter Fraud Specialist Progress Report 2021/22

Ms A Clarke, Local Counter Fraud Specialist, PwC, introduced her progress report at paper J2, summarising progress against the 2021/22 Counter Fraud Plan and reactive work against one prior-year and two current year referrals. One fraud prevention notice had been issued in respect of potential mandate fraud. Since paper J2 had been circulated, the NHS Counter Fraud Authority had announced a post-event assurance exercise surrounding Government procurement notices at the beginning of the Covid-19 pandemic and the Local Counter Fraud Specialist confirmed that she would be working with UHL's procurement team to support their response to this assurance exercise. The Non-Executive Director Audit Committee Chair queried whether the Trust had any potential risk exposure in terms of national procurement contracts, but the Local Counter Fraud Specialist advised that any such exposure would be picked up within the post-event assurance exercise.

Finally, the Local Counter Fraud Specialist sought advice from the Committee about whether members would prefer to receive Counter Fraud Progress reports on a monthly basis or a bi-monthly basis, noting in response that bi-monthly reports would be preferred.

LCFS

Resolved – that (A) the Local Counter-Fraud progress report be received and noted as paper J2, and

(B) the Local Counter-Fraud Specialist be requested to amend the frequency of future Counter Fraud progress reports to the Audit Committee to bi-monthly.

LCFS

42/21/7 Discretionary Procurement Actions

The Chief Financial Officer introduced paper K, providing a summary of the discretionary procurement actions for the period of February 2021 to April 2021. Appendix A detailed the 49 occasions when waivers had been approved. A further 24 waivers were currently entered in the register and were awaiting approval. In discussion on this report, Mr A Johnson, Non-Executive Director sought assurance that the appropriate controls were in place to ensure purchase order compliance with each of the discretionary procurement actions. The Chief Financial Officer confirmed his expectation that purchase orders should be in place for each of these items, given the stringent authorisation process. The Non-Executive Director Audit Committee Chair noted that appendix A was set out in chronological order, he queried whether there would be any particular outliers if they were broken down by Clinical Management Group and Corporate Directorate. The Deputy Financial Improvement Director agreed to liaise with

DFID

the Head of Procurement and Supplies in respect of the above two queries and provide an update to a future Audit Committee meeting.

Resolved – that (A) the Discretionary Procurement Actions set out in paper K be received and noted, and

(B) the Deputy Financial Improvement Director be requested to liaise with the Head of Procurement and Supplies in respect of the following issues and provide an update to a future Audit Committee meeting:-

(1) the controls in place to ensure purchase order compliance for all discretionary procurement actions, and DFID

(2) analyse a breakdown of discretionary procurement actions by CMGs/Corporate Directorates to establish whether any particular areas were outliers in the number of applications being made for discretionary procurement actions. DFID

42/21/8 Review of Losses and Special Payments

The Deputy Director of Finance (Financial Services) introduced paper L summarising the Trust's losses and special payments for the 2020/21 financial year and providing an update on bad debt write-offs in the year. This annual schedule formed part of the Trust's Annual Accounts. Appendix 1 provided an analysis of the value and number of cases, together with the comparative data for 2019/20. The Audit Committee approved the 2021/22 schedule of losses and special payments, noting that there were no novel, contentious or repercussive cases to be reported. CFO

Ms V Bailey, Non-Executive Director commented upon the scale of bad debts that related to private patients and overseas visitors and whether this might increase during 2021/22 as a result of extended waiting times for treatment following the Covid-19 pandemic. In response to this query, the Deputy Director of Finance (Financial Services) provided assurance that the strengthened management arrangements for the Private Patient and Overseas Visitor team would help to mitigate this risk.

Resolved – that the losses and special payments for the 2020/21 financial year be approved (as set out in paper L). CFO

43/21 **ITEMS FOR NOTING**

Papers M1 to M3 provided the Minutes of the QOC, PPPC, and FIC meetings held on 25 March 2021 and paper M4 provided the Minutes of the CFC meeting held on 16 April 2021. In respect of paper M2, Col (Ret'd) I Crowe, Non-Executive Director raised a query regarding the next steps following the Internal Audit Review of Waiting List Management (Minute 26/21/2 refers). Ms V Bailey, Non-Executive Director noted that the Acting Chief Operating Officer had reported to the April 2021 PPPC meeting on the access policy for elective patients and that she was expected to present a progress update to a future meeting.. A short discussion also took place regarding follow-up appointments in Ophthalmology.

Resolved – that the Minutes of the following meetings be received and noted at papers M1 to M4 respectively:

- **Quality and Outcomes Committee meeting held on 25 March 2021;**
- **People, Process and Performance Committee meeting held on 25 March 2021;**
- **Finance and Investment Committee meeting held on 25 March 2021, and**
- **Charitable Funds Committee meeting held on 16 April 2021.**

44/21 **ANY OTHER BUSINESS**

There were no items of any other business.

45/21 **IDENTIFICATION OF ANY KEY ISSUES FOR THE ATTENTION OF THE TRUST BOARD**

Resolved – that the Audit Committee's discussion on the following items be brought to AC

the attention of the Trust Board on 3 June 2021:-

CHAIR

- Confidential Report by the Deputy Financial Improvement Director (Minute 41/21/1 refers)
- Confidential Report by the Interim Associate Director of Finance (Minute 41/21/4 refers)
- Internal Audit Review of Payroll (Minute 42/21/2 refers), and
- Confidential Report by Internal Audit (Minute 42/21/3 refers)

46/21 DATE OF NEXT MEETING

Resolved – that the next Audit Committee meeting be held on **Monday 21 June 2021 from 9am – 12noon** (virtually via MS Teams).

The meeting closed at 11.31am

Kate Rayns, Corporate and Committee Services Officer

Audit Committee Cumulative Record of Members' Attendance (2021/22 to date):

Members:

Name	Possible	Actual	%
M Williams	2	2	100
V Bailey	2	2	100
I Crowe	2	2	100
A Johnson	2	2	100

In attendance:

Name	Possible	Actual	%
M Brice	2	2	100
S Lazarus	2	1	50
J Shuter	2	1	50
S Ward	2	2	100