

Trust Board paper I1

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

DATE OF TRUST BOARD MEETING: 6 May 2021

COMMITTEE: Audit Committee

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

DATE OF COMMITTEE MEETING: 19 April 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 Equality, Diversity and Inclusion (Minute 30/21/5 refers)

DATE OF NEXT COMMITTEE MEETING: 17 May 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 19 APRIL 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:** Mr N Bond – Deputy Director of Estates and Facilities (for part of Minute 25/21)
Ms A Breadon – PwC (the Trust's Internal Auditor) (excluding Minutes 35/21/1 to 35/21/4)
Mr M Brice – Deputy Financial Improvement Director (excluding Minutes 35/21/1 to 35/21/4)
Ms A Clarke – Local Counter-Fraud Specialist, PwC (excluding Minutes 35/21/1 to 35/21/4)
Mr R Cooper – Financial Improvement Director (excluding Minutes 30/21/5, 30/21/7, 30/21/8, and 35/21/1 to 35/21/4)
Mr D Kerr – Director of Estates and Facilities (for part of Minute 25/21)
Mr S Linthwaite – Deputy Director of Finance (Financial Services) (excluding Minutes 35/21/1 to 35/21/4)
Ms E Mayne – Grant Thornton (the Trust's External Auditor) (excluding Minutes 35/21/1 to 35/21/4)
Ms K Rayns – Corporate and Committee Services Officer
Mr J Shuter – Director of Operational Finance (on behalf of Mr S Lazarus, Chief Financial Officer) (excluding Minutes 35/21/1 to 35/21/4)
Ms E Mayne – Grant Thornton (the Trust's External Auditor) (excluding Minutes 35/21/1 to 35/21/4)
Mr M Stocks – Grant Thornton (the Trust's External Auditor) (excluding Minutes 35/21/1 to 35/21/4)
Ms J Tyler-Fantom – Deputy Chief People Officer (for Minute 30/21/5)
Mr S Ward – Director of Corporate and Legal Affairs
Ms C Wood – PwC (the Trust's Internal Auditor) (excluding Minutes 35/21/1 to 35/21/4)
Ms H Wyton – Chief People Officer (for Minute 30/21/5)

RECOMMENDED ITEMS

ACTION

25/21 CONFIDENTIAL REPORT BY THE DIRECTOR OF OPERATIONAL FINANCE AND THE DIRECTOR OF ESTATES AND FACILITIES

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

RESOLVED ITEMS

26/21 APOLOGIES FOR ABSENCE AND WELCOME

The Audit Committee Non-Executive Chair welcomed everyone to the meeting, noting that the frequency of Audit Committee meetings had been increased to monthly until August 2021. An apology for absence was received from Mr S Lazarus, Chief Financial Officer and it was noted that Mr J Shuter, Director of Operational Finance was attending today's meeting on his behalf.

27/21 DECLARATIONS OF INTERESTS

Mr A Johnson, Non-Executive Director declared his role as Non-Executive Director Chair of Trust Group Holdings Ltd (TGH) and Mr J Shuter, Director of Operational Finance declared his role as Finance Director and Company Secretary of TGH. With the agreement of the Audit Committee, these individuals remained present.

Resolved – that the position be noted.

28/21 MINUTES

Resolved – that the Minutes of the 5 March 2021 Audit Committee (papers A and A1) be confirmed as correct records.

29/21 MATTERS ARISING REPORT

Paper B provided a summary of the matters arising from the 5 March 2021 Audit Committee and outstanding matters arising from previous Audit Committee meetings. Particular discussion took place regarding the following three items where progress was RAG-rated as 3 (reflecting some delay):-

- item 3 (Minute 18/21/3 of 5 March 2021 refers) – a further update on progress of the Finance Directorate restructure would be presented to the Audit Committee on 17 May 2021;
- item 10 (Minute 19.21.1 of 5 March 2021 refers) – this item related to the development of the 2021/22 Board Assurance Framework (BAF). Approval of the 2021/22 strategic priorities and objectives was currently awaited. Once these had been approved, a development session would be scheduled with the Executive Team and the draft 2021/22 BAF would be presented to the next available meeting of the Audit Committee, and
- item 17 (Minute 8/21/5 of 27 January 2021 refers) – this item related to routine collection of ethnicity data as part of local counter-fraud investigations. The Local Counter-Fraud Specialist briefed the Audit Committee on the arrangements for capturing ethnicity data in respect of counter-fraud investigations and disciplinary proceedings. This data was collated in the Workforce Race Equality Standard (WRES) report which was presented to the Executive People and Culture Board and the People, Process and Performance Committee on a regular basis. It was agreed that this entry on the matters arising report would now be marked as 5 (complete) and removed from future iterations of the log.

CCSO

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

30/21 KEY ISSUES FOR DISCUSSION/DECISION

30/21/1 Update on the 2019/20 Accounts

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

30/21/2 Update on the Management Response to the draft Audit Findings Report 2019/20

Further to Minute 18/21/2 of 5 March 2021, the Deputy Financial Improvement Director introduced paper D, updating the Audit Committee on the actions underway to address the control weaknesses highlighted by Grant Thornton's draft Audit Findings Report (AFR). Taking the report as read, he drew members' attention to the supporting appendices. It was noted that appendices A and B summarised progress against the 17 control weaknesses identified in the draft 2019/20 AFR, with appendix A including all the completed actions and the basis of their sign-off and appendix B showing the status of the remaining actions. Appendix C then provided an update on the prior year recommendations identified by External Audit. Mr J MacDonald, the Trust's Interim Chairman had specifically requested the Audit Committee to seek assurance that the changes to strengthen UHL's financial governance had been implemented, embedded and they were working effectively. Appendix A had been constructed with a view to providing this assurance.

Significant work had taken place to strengthen journals processes and a link to external working papers was now provided where there was insufficient space within the journal workbook. Regular meetings were being held to review progress of the year-end processes and the Trust had implemented a system of standardised working papers which was welcomed. A helpful meeting had been held with Internal Audit and it was intended to utilise part of the 2021/22 Internal Audit plan to undertake a third party review of UHL's financial controls and improvements with a focus on financial systems, grip and control reviews. This would provide further assurance on the effectiveness of the journal review process.

In discussion on the report, Ms V Bailey, Non-Executive Director commented that it would be helpful if the next iteration of this report could provide indicative timescales for the next progress report on key issues where progress was 'overdue'. She highlighted two of the actions in draft AFR section 17 'Management of VAT' as relevant examples. The Non-Executive Director Audit Committee Chair requested some more general reassurance on the Trust's arrangements for managing VAT and whether the appropriate parties were now

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providing the Trust with the correct advice. In response to this query, the Deputy Director of Finance (Financial Services) briefed the Committee on the Trust's contractual arrangements with Liaison for general VAT advice and with Ernst Young in respect of VAT advice on capital expenditure. Monthly meetings had been re-instigated with Liaison to address any technical VAT issues. Appropriate training was also being provided for staff from UHL's procurement, finance and estates teams to ensure that they were kept informed of any changes in the VAT rules. Arrangements were in place to undertake more general 'housekeeping' and data-cleansing work in respect of VAT management to improve the data quality in this area. There was one significant issue currently outstanding within the 2019/20 Accounts workstream relating to the VAT provision within the IBM contract and clarity had been provided to Liaison that they were to continue progressing an urgent response from HMRC in respect of this issue.

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

(B) the Deputy Financial Improvement Director be requested to provide indicative dates when the Audit Committee could expect to see progress reports for any 'overdue' actions within the next iteration of this report.

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30/21/3 Internal Audit Progress Report 2020/21

Paper G advised Audit Committee members on progress against the 2020/21 Internal Audit plan, including the issue of the final reports on the reviews of Equality, Diversity and Inclusion (EDI) and Financial Systems (Part 2), progress with the Payroll review and commencement of the fieldwork in relation to reviews of Risk Management, Contract Management, Sustainability, Data Security and Protection Toolkit, and Accounts Payable (Part 2). The terms of reference for the review of Salary Maxing had been issued and fieldwork was expected to commence at the end of April 2021. It was anticipated that the finalised reports on Payroll and Data Security and Protection Toolkit would be presented to the 17 May 2021 Audit Committee. Changes to the 2020/21 Internal Audit plan were set out on page 5 of the report, together with the rationale for these changes and the impact on planned days, but it was noted that there was no change to the overall Internal Audit fees for 2020/21.

Internal Audit continued to assess the Trust's implementation of agreed audit actions through the use of Internal Audit's TrAction system. As at 24 March 2021, there were eight actions overdue and outstanding, with two of these having no progress report provided, four requiring further evidence to be submitted prior to closing, and two with date extensions being requested. In respect of item 6 (overdue actions from the high risk findings relating to Purchase to Pay tolerances following the review of Accounts Payable), the Deputy Director of Finance (Financial Services) advised that the required actions had been completed but the evidence had not yet been captured on the TrAction system. He undertook to submit this evidence by email to Ms C Wood, Internal Audit outside the meeting. The Director of Operational Finance commented upon item 4 (further evidence required for the medium risk finding relating to supplier invoice processing), noting that this action directly related to the 'financial grip and control' workstream and these actions were overseen by the Finance and Investment Committee. He undertook to liaise with Ms C Wood, Internal Audit outside the meeting to determine what additional evidence could be submitted in order to close down this action.

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Resolved – that (A) the Internal Audit progress report be received and noted as paper G;

(B) the Deputy Director of Finance (Financial Services) be requested to submit the evidence to respond to the overdue actions relating to Purchase to Pay tolerances following the review of Accounts payable (entry number 6) to Internal Audit (outside the meeting), and

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(C) the Director of Operational Finance be requested to liaise with Internal Audit to agree what additional evidence could be submitted to close the overdue action relating to supplier invoice processing following the review of Financial Systems (entry number 4).

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30/21/4 Draft Internal Audit Risk Assessment and Plan 2021/22

Paper H described the process for assessing UHL's key risks and agreeing the content of the Internal Audit workplan for 2021/22, seeking the Audit Committee's formal approval of the 2021/22 Internal Audit Plan. Ms C Wood, Internal Audit provided a short briefing on the methodology used and the factors which affected the frequency of audit for key issues within the control environment. Due to the maximum limit on the number of days that could be included within the Plan, there were some themes which were due to be reviewed in 2021/22, but which had not been taken forwards. A summary of these was provided on page 10 of paper H. It was agreed that the Director of Corporate and Legal Affairs would work with the Internal Auditors to compile a list of the available alternative sources of assurance for each of these themes and present this information to the 17 May 2021 Audit Committee meeting. Appendix D provided a copy of the Internal Audit Charter which provided the framework for the conduct of the Internal Audit function at UHL.

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A short discussion took place regarding the Internal Audit Plan for 2021/22 during which the Non-Executive Director Audit Committee Chair commented upon the importance of meaningful terms of reference for each Internal Audit review, noting his view that it was not acceptable for an Internal Audit review to affirm that the correct systems and processes were in place for Financial Reporting and then to find out later that the financial data was incorrect. The Deputy Financial Improvement Director supported this point, confirming that the execution of the Internal Audit plan would be key, as well as appropriate follow-up work with the Responsible Officers. Ms V Bailey, Non-Executive Director emphasised the need for timely follow-up of the actions to respond to Internal Audit review findings. She also asked Internal Audit whether there had been any items not included in the 2021/22 Internal Audit Plan which they had felt should have been included. Ms C Wood, Internal Audit advised that she had been reasonably content with the shortlist of reviews, although it tended to focus quite heavily upon financial issues for reasons which were understandable. Ms A Breadon, Internal Audit added that Cyber Security was a particular concern in many organisations. Although this theme had been reviewed in the last few years, it should be retained as a theme for consideration each year.

Resolved – that (A) the Internal Audit Risk Assessment and Plan 2021/22 be approved, as presented in paper H, and

(B) the Director of Corporate and Legal Affairs be requested to prepare a summary of the available alternative sources of assurance for the themes which had been due to be reviewed in 2021/22, but not included in the final 2021/22 Internal Audit Plan for consideration at the May 2021 Audit Committee meeting.

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30/21/5 Internal Audit Review of Equality, Diversity and Inclusion (EDI)

Paper I1 detailed the final report on Internal Audit's review of Equality, Diversity and Inclusion (EDI), which had an overall 'medium' risk classification. Ms H Wyton, Chief People Officer and Ms J Tyler-Fantom, Deputy Chief People Officer attended the virtual meeting for this item. The Audit Committee noted the significant and extensive activity that had been taking place to develop the EDI Strategic Plan and the governance process that had been established to oversee progress against this Plan. Three medium risk findings had been identified, requiring the Trust to develop a comprehensive action plan, review the terms of reference for and management information provided to the EDI Board, and strengthen communications and engagement with UHL's wider workforce (including those who did not have regular access to email services at work). In discussion on the report, the Non-Executive Director Audit Committee Chair commented upon the the scope of the review which was heavily weighted towards the Human Resources elements of EDI, rather than service delivery.

The Chief People Officer thanked the Internal Auditors for their work on this review. She confirmed that there were no issues with the findings of the review, which had been welcomed and that UHL had a plan for delivering the actions now required. UHL was one of the leading NHS Trusts in the area of EDI and she was proud of the achievements that had been delivered to date. She confirmed that service needs would form part of the overall EDI action plan and it was intended to combine several workstreams into a single governance process, which would also encompass a strategic focus on health inequalities. Detailed management of change processes were planned within the People Services teams at a System-level and a Trust-level. The Non-Executive Director Audit Committee Chair sought additional information about the governance process for monitoring progress with the Internal Audit findings and the EDI action

plan, noting in response that progress reports would be presented to the Executive People and Culture Board (EPCB) in the first instance and that assurance reports would be presented to the People, Process and Performance Committee (PPPC). The PPPC Non-Executive Director Chair confirmed that he was content with this approach.

Resolved – that (A) the Internal Audit review of Equality, Diversity and Inclusion (EDI) be received and noted as paper I1, and

(B) the governance process for monitoring progress against the EDI action plan and the Internal Audit review findings via EPCB and PPPC be noted.

30/21/6 Internal Audit Review of Financial Systems (Part 2)

Paper I2 provided the final report of Internal Audit's review of Financial Systems (Part 2). The findings from Part 1 of this review were presented to the Audit Committee on 5 March 2021. Part 2 of the review focused solely on reviewing the impact of revised controls around manual journals with a particular emphasis on the new procedure document which had been implemented in December 2020 outlining how manual journal entries should be documented and authorised prior to being posted into the ledger. An intensive analysis had been undertaken using a sample of 25 journals from months 10 and 11, although it had not been possible for Internal Audit to utilise their HALO software to interrogate the data further.

Appendix A showed the number of users posting journal entries, identifying a number of users who were posting a small number of journal entries towards the end of the year. The report suggested that the Trust might want to confirm the appropriateness of those entries. The review had identified one low risk finding and one medium risk finding which were set out on pages 6 and 7. A short discussion took place regarding the auto-accrual entry included within the sample which had been captured as a manual journal. The Deputy Financial Improvement Director undertook to review this finding and provide an update to the May 2021 Audit Committee as part of the wider management response to this Internal Audit review.

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In summary, the Non-Executive Director Audit Committee Chair commented upon the good level of assurance that this Internal Audit review provided in terms of the effectiveness of financial journal controls. The Deputy Financial Improvement Director supported this view, although he noted that there would always be some scope for further improvements and part of the solution would be to increase the proportion of automated processes, embed appropriate staff culture and behaviours, and to challenge whether putting manual journals into the ledger was part of each individual's role.

Resolved – that (A) the Internal Audit review of Financial Systems (Part 2) be received and noted as paper I2, and

(B) the Deputy Financial Improvement Director be requested to submit a management response to this Internal Audit review to the May 2021 Audit Committee (including an update on the users who were submitting small numbers of entries at the end of the year and the arrangements for excluding auto-accruals in future manual journal reports).

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30/21/7 Local Counter-Fraud Specialist Progress Report 2020/21

Ms A Clarke, Local Counter-Fraud Specialist, PwC, introduced her progress report at paper J, confirming that the proactive work was nearing completion for 2020/21. A counter-fraud staff awareness quiz had been shared via the Communications Team and a meeting had been held with the Director of Corporate and Legal Affairs regarding Conflicts of Interest elements of the new Counter-Fraud Standards. An update on Covid-19 fraud risks was provided on page 4 of the report and members noted that the volume of monthly fraud referrals in the East Midlands had increased in January 2021 and remained high in February 2021. These mostly related to vaccine scams where it was important to raise public awareness of malicious emails, texts and phone calls relating to the Covid-19 vaccination programme. No new counter fraud referrals were included within paper J, although it was noted that there would be one new referral to include in the May 2021 progress report. A hearing date was due to be set in May 2021 for case reference UHL1906 and six referrals had been closed since the Audit Committee meeting held on 5 March 2021.

The Counter-Fraud Functional Standard self-assessment return was scheduled to be presented to the Audit Committee on 17 May 2021, ahead of the submission deadline at the end of May 2021. The Non-Executive Director Audit Committee Chair sought and received further information about the data-matching exercise, noting that these had all been uploaded and no requests for additional support had been received to date. The Non-Executive Director Audit Committee Chair requested that a high level report on the outcomes of the data-matching exercise be presented to a future Audit Committee meeting.

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Ms V Bailey, Non-Executive Director queried whether there was any available benchmarking data to inform the Committee's understanding of the number of counter-fraud referrals that could be expected within a Trust of UHL's size. In response, the Local Counter-Fraud Specialist advised that the NHS Counter-Fraud Authority (NHSCFA) undertook an annual benchmarking exercise and she offered to share the most recent version of this report (if this would be helpful). In general terms, there was always more that could be done to increase awareness of fraud risks, including increasing the take-up of the electronic training programme. An action plan was being developed in respect of developing fraud awareness at UHL. The Non-Executive Director Audit Committee Chair commented that very high levels of counter-fraud referrals within a Trust could be interpreted as positive assurance on the robust nature of the referrals process. Ms Bailey, Non-Executive Director noted that her earlier request for benchmarking data was intended as a prompt for further questions, rather than a tool for judging UHL's performance.

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

(B) the Local Counter-Fraud Specialist be requested to present the Counter-Fraud Functional Standard self-assessment return to the Audit Committee for approval on 17 May 2021, alongside the high-level data matching outcomes.

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30/21/8 Draft Counter-Fraud Annual Plan 2021/22

Paper K set out the key changes associated with the implementation of the Government's Functional Standard for Counter Fraud in the NHS and described the enhanced mandatory requirements for NHS Trusts, inviting the Audit Committee to approve the draft Counter-Fraud Plan for 2021/22. The Deputy Financial Improvement Director highlighted the need to consider the future working arrangements for counter-fraud as the Trust became part of the Integrated Care System (ICS), recognising the separate accountability and responsibilities of each organisation as a sovereign body within the wider LLR System. The draft Counter-Fraud Annual Plan for 2021/22 was approved as presented in paper K.

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Resolved – that (A) the draft Counter-Fraud Annual Plan for 2021/22 be approved (as presented in paper K), and

(B) consideration be given to the future Counter-Fraud arrangements as part of the LLR Integrated Care System (ICS).

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31/21 **ITEMS FOR NOTING**

Resolved – that (A) the Minutes of the following meetings be received and noted at papers L-N respectively:

- **Quality and Outcomes Committee meeting held on 25 February 2021;**
- **People, Process and Performance Committee meeting held on 25 February 2021;**
- **Finance and Investment Committee meeting held on 25 February 2021, and**

(B) the Minutes of the Charitable Funds Committee meeting held on 16 April 2021 be presented to the Audit Committee on 17 Mar 2021.

32/21 **ANY OTHER BUSINESS**

There were no items of any other business.

33/21 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 the attention of the Trust Board on 6 May 2021:-

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CHAIR**

- Confidential Report by the Director of Operational Finance and the Director of Estates and Facilities (Minute 25/21 refers)
- Internal Audit Review of Equality, Diversity and Inclusion (Minute 30/21/5 refers)

34/21 DATE OF NEXT MEETING

Resolved – that the next Audit Committee meeting be held on **Monday 17 May 2021 from 9am – 12noon** (virtually via MS Teams).

35/21 DISCUSSIONS IN THE ABSENCE OF EXTERNAL AUDIT AND INTERNAL AUDIT REPRESENTATIVES

35/21/1 Minutes

Resolved – that the confidential Minutes of the Audit Committee meeting held on 5 March 2021 (paper O) be confirmed as a correct record.

35/21/2 Matters Arising

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

35/21/3 Verbal Feedback from Non-Executive Directors

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

35/21/4 Confidential Verbal Report by the Director of Corporate and Legal Affairs

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

The meeting closed at 11.17am

Kate Rayns, Corporate and Committee Services Officer

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

Members:

| Name | Possible | Actual | % |
|------------|----------|--------|-----|
| M Williams | 1 | 1 | 100 |
| V Bailey | 1 | 1 | 100 |
| I Crowe | 1 | 1 | 100 |
| A Johnson | 1 | 1 | 100 |

In attendance:

| Name | Possible | Actual | % |
|-----------|----------|--------|-----|
| M Brice | 1 | 1 | 100 |
| S Lazarus | 1 | 0 | 0 |
| J Shuter | 1 | 1 | 100 |
| S Ward | 1 | 1 | 100 |