

UNIVERSITY HOSPITALS OF LEICESTER NHS TRUST

MINUTES OF THE AUDIT COMMITTEE MEETING

HELD ON FRIDAY 23 JUNE 2023 AT 9 AM

(held virtually via Microsoft Teams)

Present: Mr M Williams - Non-Executive Director (Chair)
Ms V Bailey - Non-Executive Director, and Chair of the Quality Committee
Mr B Patel - Non-Executive Director, and Chair of the People and Culture Committee
Mr S Harris - Non-Executive Director, and Chair of the Finance and Investment Committee

In Attendance: Ms B Cassidy - Director of Corporate and Legal Affairs
Ms S Chaudhry – Reconfiguration PMO Manager (for Minute 45/23/1)
Mr M Curtis – Counter Fraud (360 Assurance)
Ms K Henry - External Audit (KPMG)
Mr S Linthwaite - Deputy Director of Finance
Mr R Manton – Head of Risk Management
Ms K Meats - Internal Audit (360 Assurance)
Ms A Moss - Corporate and Committee Services Officer
Ms J Robinson - Internal Audit (360 Assurance)
Mr Z Safdar – Assistant Director of Finance
Ms N Topham – Reconfiguration Programme Director (for Minute 45/23/1)
Mr R Walton - External Audit (KPMG)

RECOMMENDED ITEMS

40/23 NHS Provider Licence conditions G6 and FT4 – 22/23 Self Certification

The Director of Corporate and Legal Affairs presented paper K which provided assurance that the Trust was compliant with the requirements of the NHS provider Licence (paper K). The Committee noted that the report would be presented to the Trust Board on 6 July 2023.

Recommended – that the report ‘NHS Provider Licence conditions G6 and FT4 – 22/23 Self Certification’ be submitted to the Trust Board.

RESOLVED ITEMS

41/23 APOLOGIES FOR ABSENCE

Apologies for absence were received from Ms L Hooper, Chief Financial Officer, Mr J Brown, External Audit, and Ms J Clarke, Counter Fraud (360 Assurance)

42/23 QUORUM

The meeting was confirmed to be quorate.

43/23 DECLARATIONS OF INTERESTS

There were no declarations of interest.

44/23 MINUTES

The Minutes of the Audit Committee meetings held on 17 and 27 April 2023 were received.

Resolved – that the Minutes of the meeting held on 17 and 27 April 2023 were approved.

45/23 MATTERS ARISING REPORT

The Committee received a summary of the matters arising from previous meetings.

Resolved – that any updates provided at this meeting be reflected in the next iteration, and any required actions be taken by the appropriate named leads.

46/23 OVERSIGHT AND RISK

46/23/1 Reconfiguration Risk Management Strategy: Assurance on Alignment with UHL Risk Management Process

The Reconfiguration Programme Director and the Reconfiguration PMO Manager presented paper C, which provided assurance that the Reconfiguration Programme followed a robust Risk Management Strategy, which was fully aligned to the UHL Risk Management Process.

The Risk Management Strategy had been adopted in 2021 and was considered essential for a Programme of such size and complexity. Following the Risk Committee's request, in April 2023, a meeting had been held between the Reconfiguration PMO Manager and the Head of Risk Assurance. As a result, a number of changes were made to the strategy in order to ensure the process was in line with that of the whole Trust. These changes were listed in the report.

The presentation noted the movement in the three highest risks relating to the Programme. These were: not receiving insufficient funding; energy infrastructure; and the New Hospitals' Programme's (NHP) approach to refurbishment.

It was confirmed that the risk escalation would be to the Reconfiguration and Transformation Committee and other Board committees, as appropriate.

Mr M Williams, Non-Executive Director, Chair asked whether contractors would be procured at a national level or locally. The Reconfiguration Programme Director reported that NHP was developing a national framework which trusts would draw down from. There was a risk around the market and the number of contracts available. It would be ideal to have one contractor completing all the work on one site and harder to achieve value for money to have a number of small schemes. However, there were elements of both refurbishment and new build in UHL's Programme which made it more complex to procure. In particular, the site at Leicester Royal Infirmary was a challenge as it was constrained by size and the need to remain functional.

The Committee took assurance that the risks were being managed and mitigated.

Resolved – that the report be received and noted.

46/23/2 Financial Improvement Plan

The Assistant Director of Finance presented the report detailing progress on the Financial Improvement Plan (paper D).

There were 150 actions which incorporated the 12 actions arising from the recent Internal Audit Report on Key Financial Systems (see Minute 45/23/1). Of the 150 actions, 127 had been completed and good progress made as many of the actions related to year-end activity. The nine actions arising from Healthcare Financial Management Association (HFMA) assessment were on track.

With respect to the Internal Audit, there was a slight discrepancy between the Trust and the report of Internal Audit regarding which actions had been closed. This was due to the time of reporting and need to assess the evidence provided.

There was an action to verify the assets; 50% had been physically verified and an external partner had been engaged to tag medical equipment of high value. The target date for completing the action was September 2023. However, this would not be in time for the audit of the annual accounts for 2022/23. It was anticipated that it would lead to a Qualified Opinion.

The Committee noted the misalignment with the Internal Audit report regarding closed actions. The Deputy Director of Finance, noting that whilst it was the Directorate's own assessment, was confident that the issues had been resolved. Many actions related to the external audit of accounts and the Auditor's findings would provide external validation. Mr R Walton, External Audit, noted that many actions were close to be completed and some actions could be classed as business as usual.

Resolved – that the report be received and noted.

46/23/3 2022/23 Valuation of Land and Property

The Deputy Director of Finance reported that the valuation of property, plant and equipment was required as part of the audit of the annual accounts and represented a key risk due to its materiality. Paper E set out how the Trust had approached the valuation which whilst being an estimate was as accurate as possible.

The report set out the approach taken in previous years and noted that it had been revisited given the need to re-present the annual accounts for 2019/20.

The Trust had engaged an external valuer. The accounting principles applied were set out in the report which considered what it would cost to replace the asset using current techniques. The key factors impacting on the valuation were noted.

It was considered appropriate to make an adjustment of c10% in the land values which reflected changes in the market. The appendix to the report set out an analysis of the movement in values for each site. Overall, the land valuation had reduced by 7.8% (£4.7m) and buildings increased by 8% (£37m).

Ms V Bailey, Non-Executive Director, asked how the Reconfiguration Programme would impact on the valuation and whether building occupied, but not owned, by the Trust were excluded. The Deputy Director of Finance noted that changes would be reflected in further valuations and as the Estates Strategy was updated. The valuation was at a fixed point in time. Ms V Bailey, Non-Executive Director, thought the process had improved as the Estates Strategy was formally signed off. It was noted that whilst modern building methods might realise efficiencies, it did not mean that they were cheaper to run in terms of energy. Mr R Walton, External Audit, confirmed that the valuation covered those buildings from which the Trust provided a service. However, there was a new accounting standard, IAS 16, which could extend the scope.

The Committee took assurance from the report as it outlined the methodology, the decisions taken by the Finance team, and impact on the annual accounts.

Resolved – that the assumptions and principles underpinning the 2022/23 land and property valuation included in the Trust's Statement of Financial position be approved.

46/23/4 Losses and Special Payments

The Assistant Director of Finance presented the report noting the losses and special payments made and sought approval for the write-off of debts (paper F).

In 2021/22, 188 individual debts totalling £116k had been written off. No debts were written off in 2022/23. It was emphasised that debts were only written off once all avenues to recover the debt, including use of a third-party debt collection agency, where appropriate, had been exhausted. The process was set out in the appendix to the report.

Approval was sought to write-off debt of £0.64m which mainly related to overseas patients' debt and salary overpayments. It was reported that there would not be a material impact on the income and expenditure account as there had been provision made for bad debts.

The Committee noted that most of the special payments related to the loss of personal effects and injury claims. The report was normally presented annually to the Audit Committee and going forwards it would be presented quarterly.

Mr B Patel, Non-Executive Director, sought assurance about the guidance given to patients and visitors about the responsibility for personal items. The Deputy Director of Finance observed that a large proportion of the personal belongings which were subject to a claim, (such as dentures and glasses) would need to be with the patient in hospital. Mr S Harris, Non-Executive Director noted that the level of claims appeared to have doubled. Whilst the visitor restrictions might account for the variance, he considered the level of claims to be high. It was noted that the NHS insurance schemes would be paying out over and above the excess payable by the Trust. The overall level of claims would impact on the level of premium paid by NHS trusts. Mr M Williams, Non-Executive Director, Chair, asked that the next report provide information on the totality of claims (not just the excess) and a comparison with other trusts regarding the level of claims. The Committee asked that the policy, for loss of personal belongings be reviewed.

DDF

Ms V Bailey, Non-Executive Director, asked about the salary overpayment referenced in the report. It was thought it might relate to payroll processes. It was confirmed that it was not possible to recover the payment.

It was noted that whilst the debts arose in 2022/23, they needed to be written-off and accounted for within 2023/24 accounts.

Resolved – that (A) the value of losses and special payment be noted,

(B) the debt requiring write-off in 2023/2024 be approved,

(B) the next update provide data regarding the total of the claims made and the level of claims received by other trusts, and

(C) the policy regarding personal effects be reviewed.

46/23/5

Progress of Management Response to Statutory Recommendations

The Deputy Director of Finance provided an update on the progress made with respect to the statutory recommendations arising from the audit of 2019/20 annual accounts (paper G refers).

There were three actions which were due to be completed shortly: finance training for non-financial managers; completion of the 2022/23 accounts; and finalisation of the Medium-Term Financial Plan. The plan was due to be completed in Quarter 2 of 2023/24 and would address the recommendation (no.9) regarding achieving a sustainable financial position of the Trust. Mr M Williams, Non-Executive Director, Chair, commented that the recommendation had been drafted at a point in time and not in the current financial climate. Ms V Bailey, Non-Executive Director, considered that the actions should be classed as business as usual. However, she asked the Committee would know the changes were embedded. The Deputy Director of Finance agreed to review what assurances could be provided and to consolidate the action plans.

DDF

Resolved – that (A) the report be received and noted, and

(B) the action plans be amalgamated, and consideration given to the assurance that changes had been embedded.

45/23/6 Board Assurance Framework and Significant Risk Report

The Head of Risk Assurance presented the Board Assurance Framework (BAF), prior to consideration by the Trust Board on 13 July 20223. (paper H).

The BAF had been reviewed by Internal Audit as part of the Head of Internal Audit Opinion work and assessed as providing 'moderate assurance'. The rating recognised that the BAF had not been in place for a full year.

The Head of Risk Assurance reported that he was meeting monthly with the Executive Leads to review the BAF. The feedback had been that the content was well aligned and used within workplans. The strategic risks were regularly reviewed by the respective Board committees and issues escalated to the Trust Board as appropriate.

It was noted that Risk No.3 which related to the misstatements in the 2019/20 annual accounts had been closed. Risks 7A and 7B relating to the delivery of the 2022/23 and 2023/24 financial plan had been amalgamated and the risk score be increased from 15 to 20, given the challenges in financial performance.

It was reported that there were 340 open risks on the Operational Risk Register and that no risks scored at 25. The performance in managing the Register was reviewed by the Risk Committee. There was a good level of challenge and discussion at the committee around controls and actions although there was a need to improve attendance.

Internal Audit would be reviewing the approach of the Clinical Management Groups to risk management in Quarter 2 of 2023/24.

The themes of the significant risks were around: workforce, patient flow (managing demand and capacity); estate and environment; equipment and supplies, and finances. These aligned with the strategic risks.

Ms V Bailey, Non-Executive Director, recognising that the BAF process was much improved, asked how the Reconfiguration Programme was reflected in the strategic risks. It was noted that the greatest risk related to the overall level of funding which was being overseen by Finance and Investment Committee. The Director of Corporate and Legal Affairs noted that the Reconfiguration Programme was an enabler and would mitigate existing risks. It was further noted that the Associate Director of Strategy and Partnerships had reviewed the strategic risks as they related to the Annual Plan 2023/24 which would be considered by the Trust Board.

Resolved – that the report be received and noted.

46/23/7 Draft 2022/23 Annual Report and Annual Governance Statement

The Director of Corporate and Legal Affairs presented the latest iteration of the Annual Report and Annual Governance Statement (AGS) for 2022/23 (paper I refers). There was still work to do and the plan was to provide the External Auditor with the final version on 4 July 2023. The work outstanding was listed in the report and observations from the Internal Auditor regarding significant control issues/risks would be addressed.

It was proposed that the AGS emphasise the progress made in addressing the fundamental issues arising from the audit of 2019/20 accounts. It was noted that the AGS needed updating with respect to information governance; data quality; a review of economy, effectiveness and use of resources; and clinical audit. The Director was working with the Deputy Director of Finance to develop the narrative about finance, governance and culture.

Mr M Williams, Non-Executive Director, Chair, wondered if the Annual Report was too long. The Director considered that it needed to be comprehensive and reflect the issues including the Head of Internal Audit Opinion and outcome of the Well-Lead Inspection from the Care Quality Commission (CQC).

The Director of Corporate and Legal Affairs would share the next iteration of the Annual Report and AGS prior to the final sign off at the meeting on 14 August 2023.

Resolved – that the report be received and noted.

46/23/9 New Code of Governance for NHS Trusts - self-assessment

The Director of Corporate and Legal Affairs presented the Trust's self-assessment against the Code of Governance for NHS Trusts (paper L).

It was reported that the self-assessment would be undertaken annually on the basis of 'comply or explain' and would be incorporated into the Annual Governance Statement. The Director of Corporate and Legal Affairs noted that whilst the Trust could demonstrate compliance elements could be strengthened. It was noted that it was not considered best practice for the Trust's Vice-Chair to be the Chair of the Audit Committee.

Resolved – that the report be received and noted.

46/23/10 Discretionary Procurement Actions

The Deputy Director of Finance presented paper M which set out the procurement waivers approved between April 2023 and June 2023.

Mr M Williams, Non-Executive Director, Chair, proposed to contact the Head of Procurement and Supplies to check on specific examples.

In response to a question from Ms V Bailey, Non-Executive Director, the Deputy Director of Finance agreed to confirm whether the report would capture any procurement waivers in respect of Trust Group Holdings (TGH).

DDF

Resolved – that (A) the report be received and noted, and

(B) confirmation provided regarding the reporting arrangements for TGH.

DDF

46/23/11 Audit Committee Objectives 2023/24

The Director of Corporate and Legal Affairs proposed that, following receipt of the Committee's Annual Report at the last meeting, that the Committee set objectives for 2023/24 (paper N). The proposed objectives were:

- Good governance – review terms of reference, work plans, meeting frequency and complete annual report
- Oversight of internal control issues from committees – initiate a formal reporting mechanism from Board committee through to Audit Committee to alert to any internal control issues
- Reintroduce private pre meeting with Audit membership, external and internal auditors
- Review of the policy for non-audit work
- Receive the 2022/23 clinical audit annual report and receive the clinical audit plan for 2023/24
- Assess the performance of external audit
- Continue to assess the independence of the internal and external auditors

Resolved – that the objectives for 2023/24 be approved.

47/23 **INTERNAL AUDIT AND COUNTER-FRAUD**

47/23/1 Internal Audit Report Key Financial Systems (2223/UHL/14)

Ms J Robinson, Internal Audit, presented paper O, which set out the findings from the audit of key financial systems which had focussed on treasury and cash management and the overview of the accounts receivable system. The opinion provided a 'limited assurance' having identified weakness in key controls in both treasury and cash management and the arrangements for debt management. Twelve actions had been agreed; ten were medium risk and two were low risk.

The Deputy Director of Finance reported that six actions had already been implemented and action had been taken to address the remaining. He noted that the changes needed to be embedded.

Mr M Williams, Non-Executive Director, Chair, expressed disappointment that some basic issues had not been addressed. However, he considered it likely that similar issues would be found in other Trusts and given the level of change in recent times, it was inevitable that some actions, such as updating policies, and bank mandates, would be missed.

Resolved – that the report be received and noted.

47/23/2 Internal Audit – Overdue Recommendations

The Director of Corporate and Legal Affairs presented the joint report on actions from Internal Audit reports that were overdue (paper P) . The first follow-up implementation rate for actions was 56% which equated to 'limited assurance'. Many of the overdue actions related to audits conducted by Price Waterhouse Cooper (PwC).

The Director of Corporate and Legal Affairs reported that the Executive Team had greater oversight of the actions and wished to improve the implementation rate. She noted that action owners were not always cognisant of the impact of changing target dates and ensuring the Executive Lead was aware. There would be further communication to highlight the importance of meeting deadlines and the distinction between a 'revised date' and an 'extended date'

Resolved – that the report be received and noted.

47/23/3 Head of Internal Audit Opinion / Annual Report

Ms J Robinson, Internal Audit presented the Head of Internal Audit Opinion/Annual report (paper Q), noting that it provided an overall opinion of 'limited assurance'. This had been based on a number of elements. As referenced earlier in the meeting, the BAF had not been operational for the full year, so provided a moderate opinion for the BAF element. The Internal Audit plan outturn noted that three out of five reports provided limited assurance, so this element provided a limited opinion. The implementation rate for actions arising from internal reviews was 55% for 2022/23 which equated to a limited opinion also for this element.

The Committee received the Internal Audit Annual Report.

The Committee considered that the Head of Internal Audit Opinion was a fair assessment.

Resolved – that the report be received and noted.

47/23/4 Internal Audit Progress Report

Ms J Robinson, Internal Audit, presented the Progress Report on the 2022/23 Internal Audit Plan (paper R). Two reports had been issued since the last Audit Committee meeting: Key Financial Systems and Patient Experience – Friends and Family Test. Both provided limited assurance.

With respect to the Plan for 2023/24, terms of reference had been agreed for reviews for Clinical Management Groups – Risk management and policy management framework.

There had been nine actions followed up in 2023/24; 5 had been implemented in the given timescale; an implementation rate of 56%. The overall follow up rate was 67%. Ms Robinson advised that since the progress report had been prepared, further updates had been provided and actions followed up, and the follow up implementation rate was now at 60%.

It was noted that the Internal Audit Report on Patient Experience – Friends and Family Test would be presented to the Quality Committee. Ms V Bailey, Non-Executive Director,

considered there was a need to seek feedback in a more meaningful way as the Friends and family test was not an ideal process.

Resolved – that the report be received and noted.

47/23/5 Counter Fraud Annual Report and Progress Report

Mr M Curtis, Counter Fraud presented the Annual Report for 2022/23 and the Progress Report for 2023/24.

Mr Curtis, Counter Fraud, noted that the focus for 2022/23 had been on processes to ensure compliance. Good collaboration between the Trust and 360 Assurance had meant that all the indicators in the Annual Report were RAG rated green.

For the current and future years, the focus would be on delivering a service that added more value. This would include investigations into staff working whilst on sick leave and undeclared conflicts of interest. In addition, there would be training for staff and proactive exercises.

Mr M Williams, Non-Executive Director, Chair, asked whether there was a high prevalence staff working whilst on sick leave, Mr Curtis noted that there had been a number of referrals from other trusts for this circumstance and it often reflected a weakness in controls.

Resolved – that the report be received and noted.

48/23 **EXTERNAL AUDIT**

48/23/1 External Audit Plan for the year ended 31 March 23

Mr R Walton and Ms K Henry, External Audit, presented the update on the work to audit the 2022/23 annual accounts (paper T).

The work to date had identified four main risks: valuation of land and buildings; existence of plant and equipment; fraud risk – expenditure recognition; and management override of controls.

Ms Henry noted that with respect to the valuation of land and property the initial work had been completed and would be subject to a further internal review. Significant work had been undertaken to mitigate the risks around the existence of plant and equipment and it was hoped that this would mean an unqualified opinion for 2023/24. It was noted that the Audit Standards recognised the existence of plant and equipment exposed organisations to risk of fraud and/or manipulation of expenditure. It was noted in the report, that at the time of writing £40m of £89m of the plant and equipment had been verified. With respect to the management override of controls the audit was reviewing the journals and considering the use of bias.

The report noted that the level of materiality for 2022/23 was set at £21m (up from £13.3m for 2021/22). This was, in part, due to this being the second audit conducted by KPMG on the Trust's accounts and the issues to be addressed were of a lesser order than in previous years. The risk assessment for the Trust had informed the decision.

It was noted that the qualified opinion for 2021/22 annual accounts related to fixed asset management (which was a specific issue for UHL) and the risk of fraud (which was an NHS-wide issue).

It was reported that the External Audit liaised regularly with the National Audit Office and there remained a level of internal scrutiny within KPMG given the Trust's circumstances. However, it was acknowledged that the Trust had made significant progress and was moving in the right direction.

The timetable for completing the audit of the 2022/23 annual accounts was set out in the report and the intention was to report to the next scheduled meeting of the Audit Committee.

Mr R Walton, External Audit, reported that the Value for Money assessment would be more in depth than normal and would consider financial sustainability, governance and improving economy, efficiency and effectiveness.

Mr M Williams, Non-Executive Director, Chair, asked about the likely qualification to the accounts and whether it recognised the progress made by the Trust. Mr Walton, External Audit, noted that the qualification would be written by the technical team in light of standard practice and accounting standards. He added that the narrative in the Auditor's Report would recognise the progress made between 2021/22 and 2022/23. He assured that Committee that it would be written with the Trust's stakeholders in mind, including the media to reflect the more nuanced picture.

Resolved – that the report be received and noted.

49/23 ITEMS FOR NOTING

49/23/1 Escalation Report of Risk Committee 21 April and 26 May 2023.

49/23/2 Minutes of Board Committee Meetings

Resolved – that the Minutes of the following Board Committee meetings be received and noted at papers X3 – X13 inclusive:

- Operations and Performance Committee 22 February and 26 April 2023.
- Finance and Investment Committee 23 March, 31 March and 2 May 2023.
- People and Culture Committee 30 March 2023.
- Quality Committee 30 March and 27 April 2023
- Reconfiguration and Transformation Committee 15 February 2023
- Charitable Funds Committee 17 February and 14 April 2023.

50/23 ANY OTHER BUSINESS

There was no other business.

51/23 IDENTIFICATION OF ANY KEY ISSUES FOR THE ATTENTION OF THE TRUST BOARD

Resolved – that (A) the following be recommended to the Trust Board for consideration

- New Code of Governance for NHS Trusts - self-assessment (Minute 44/23/9)

(B) the following be highlighted to the Trust Board for information

- Reconfiguration Programme Risk Management Strategy (Minute 45/23/1)
- Asset verification (Minute 45/23/2)
- Validation of Land and Property (Minute 45/23/3)
- Losses and Special Payments (minute 45/23/4)
- Audit Committee Objectives 2023/24 (Minute 45/23/11)

**AC NED
CHAIR**

52/23 DATE OF NEXT MEETING

It was questioned whether an extraordinary meeting would need to be convened at the end of August 2023 to receive the annual accounts 2022/23. The Director of Finance reported that the plan was to report to the next ordinary meeting, but that would be kept under review.

Resolved – that the next Audit Committee meeting be held on Monday 14 August 2023 from 9 am. (virtually via MS Teams).

The meeting closed at 10.52 am

Alison Moss **Corporate and Committee Services Officer**

Audit Committee Cumulative Record of Members' Attendance (2023/24 to date):

Members:

Name	Possible	Actual	% attendance
<i>M Williams (Chair)</i>	3	3	100
<i>V Bailey</i>	3	3	100
<i>S Harris</i>	3	2	67
<i>B Patel</i>	3	3	100

In attendance

Name	Possible	Actual	% attendance
<i>B Cassidy</i>	3	3	100
<i>L Hooper</i>	3	2	67
<i>R Manton</i>	3	2	67
<i>S Linthwaite</i>	3	3	100