| Reporting to: | **Trust Board, June 5th 2014** |
|---|---|
| **Title** | Draft Audit Committee Annual Report |
| **Sponsoring Director** | Director of Corporate Governance |
| **Author(s)** | Head of Assurance |
| **Previously considered by** | |
| **Executive Summary** | It is good practice to review the business of corporate committees annually. The annual report (attached) outlines the work of the Audit Committee over the year 2013/14. |

| **Strategic Priorities** | **Operational Objectives** |
|---|---|
| ☒ Quality and Safety<br>☒ Healthcare Standards<br>☒ People and Innovation<br>☒ Community and Partnership<br>☒ Financial Strength | |

| **Board Assurance Framework (BAF) Risks** | ☒ If we do not deliver **safe care** then patients may suffer avoidable harm and poor clinical outcomes and experience<br><br>☒ If we do not implement our **falls** prevention strategy then patients may suffer serious injury<br><br>☒ Risk to **sustainability** of clinical services due to potential shortages of key clinical staff<br><br>☒ If we do not achieve safe and efficient **patient flow** and improve our processes and capacity and demand planning then we will fail the national quality and performance standards<br><br>☒ If we do not have a clear **clinical service vision** then we may not deliver the best services to patients<br><br>☒ If we do not get good levels of **staff engagement** to get a culture of continuous improvement then staff morale and patient outcomes may not improve<br><br>☒ If we are unable to resolve our (historic) shortfall in **liquidity** and the structural imbalance in the Trust's **Income & Expenditure** position then we will not be able to fulfil our financial duties and address the modernisation of our ageing estate and equipment |
|---|---|
| **Care Quality Commission (CQC) Domains** | ☐ Safe<br>☐ Effective<br>☐ Caring<br>☐ Responsive<br>☒ Well led |
| ☒ **Receive**  ☐ **Review**<br>☐ **Note**  ☐ **Approve** | **Recommendation**<br>**To RECEIVE the draft Audit Committee Annual Report** |

The Shrewsbury and Telford Hospital

**NHS**

NHS Trust

# Audit Committee Annual Report

## 2013/14

Proud To **Care**
Make It **Happen**
We Value **Respect**
Together We **Achieve**

# 1.  Introduction

The Audit Committee's chief function is to advise the Board on the adequacy and effectiveness of the Trust's systems of internal control and its arrangements for risk management, control and governance processes and securing economy, efficiency and effectiveness (value for money).

In order to discharge this function the Audit Committee has approved an Annual Report for the Board and Accountable Officer.  This Report includes information provided by Internal Audit, External Audit and other Assurance Providers, including the Trust's Risk Management Executive.


# 2.  The Role and Operation of the Audit Committee

## 2.1  Membership of the Committee

The Audit Committee is the senior Board committee taking a wide responsibility for scrutinising the risks and controls which affect all aspects of the organisation's business.  The Audit Committee met 6 times during 2013/14. It is chaired by a Non-Executive Director. The members of the Committee disclosed their interests, which included the following, in the Trust's register of interests:


- Mr Robin Hooper (Chair)

  Director of Carlisle College
  Director of Planning Group Limited
  Chief Executive of Eden District Counci
  Director of Shrewsbury Draper Limited
  Director of Enterprise Prospects Limited
  Director of Global Enterprise Solutions Limited
  Director of Hooper Burrowes Legal
  Director of Sports Booker Limited
  Director of Action Mill Care Farm Limited
  Director of Verity House Limited

- Dr Simon Walford

  Trustee, Wolverhampton Grammar School Ltd.
  Governor, University of Wolverhampton
  Director, Wolverhampton Academies Trust
  In receipt of an NHS Pension


Other Non-Executive directors are able to attend this meeting and key senior Trust personnel and Internal and External Audit are also in attendance. The Finance Director, Medical Director, and Director of Corporate Governance normally attend the Committee.

The Director of Corporate Governance provides support to the Chair and Committee members.

## 2.2  Meetings and Attendance

The Committee is required to meet at least three times a year. Six meetings took place during this period and were attended by members as shown overleaf:

| | 18 April 2013 | 9 May 2013* | 06 Jun 2013 | 19 Sep 2013 | 12 Dec 2013 | 5 Mar 2014 | TOTALS | |
|---|---|---|---|---|---|---|---|---|
| | | | | | | | No of meetings | % |
| **Members** | | | | | | | | |
| Robin Hooper | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6/6 | 100 |
| Simon Walford | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6/6 | 100 |
| **TOTAL** | **2/2** | **2/2** | **2/2** | **2/2** | **2/2** | **2/2** | **12/12** | **100%** |
| **Other attendees** | | | | | | | | |
| Chief Exec | | | | | ✓ | | | |
| Dir Corporate Governance | ✓ | x | ✓ | ✓ | ✓ | ✓ | 5/6 | |
| Finance Director | D | x | ✓ | D | ✓ | D | 4/6 | |
| Medical Director | x | x | ✓ | x | x | x | 1/6 | |
| Head of Assurance | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6/6 | |
| Other Directors / Very senior managers | | | | Chief Info Officer | | | | |
| Internal Audit | ✓ | x | ✓ | ✓ | ✓ | ✓ | 5/6 | |
| External Audit | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | 6/6 | |
| Counter Fraud | x | x | ✓ | ✓ | x | ✓ | 3/6 | |

Key – ✓ (Present) / X (Absent) from meeting / D = Deputy attended

*The May 9 meeting was a special meeting held to review the annual accounts and the draft Annual Governance Statement.

## 2.3  Terms of Reference

The Terms of Reference were reviewed and adopted in September 2013. No changes were made as the Terms of Reference are in line with those recommended in the NHS Audit Committee Handbook (2011)

## 2.4  Reporting from the Committee

An outcome summary of the Audit Committee is formally reported to the public session of the Trust Board. (Contained in the Information pack). In addition, the Chair of the Audit Committee summarises the key issues following each meeting in an update to the following Trust Board. Examples of issues brought to the attention of the Board during the year are:

- o  Concern was expressed at the potential impact of the outcome of the contract negotiations on our risk profile and the concomitant effect on the findings of our auditors. The Committee felt a more open and transparent approach to contract discussions would be a useful area for a future meeting of the Tri-partite Board meeting

to examine in order to ensure that quality diligence was applied as well as financial diligence.

- o The 18 week RTT Audit and the Finnamore Follow-up audit, which both received limited assurance and highlighted that whilst good work and clear protocols and understanding were in place in the Patient access Centre (PAC) this left roughly 40% of activity without such a robust framework. It was noted that these audits will be followed up by Finance Committee and the Booking & Scheduling Board, but until process and systems are firmly in place, with adequate staff training, this continues to be a risk for the Trust and the rigour within PAC needs to be built upon.

- o The Committee was pleased to note the sustained improvement in the Recommendation Tracking update and commended all those involved for this progress.

- o The Committee was pleased to note that an Internal Audit Workshop 'What do I need to know about Internal Audit' held on 16 September was attended by over 30 middle/senior managers and had received very positive feedback.

- o The Committee received an update from Lorna Barry – Counter Fraud Specialist and were delighted to hear that NHS Protect had stated that the arrangement SaTH in terms of engagement at all levels and particularly the involvement of Counter Fraud in its Policy Approval process was 'the best they've seen in the NHS'

## 2.5  Reporting to the Committee

In line with the terms of reference there are a number of standing items on each Committee agenda.

The following were presented at each meeting
- Internal Audit Update

The following were presented at each meeting with the exception of the special meeting in May
- External Audit Update
- Audit Recommendation Tracking

The following reports were also presented to the Committee:
- Board Assurance Framework (Apr,  Sept and Dec 13, Mar 14)
- Counter Fraud update (June, Sept and Dec 13, Mar 14)
- Security Annual Report (Jun 13)
- Annual Accounts (May and Jun 13)
- Annual Report (Jun 13)
- Annual Governance Statement (Apr, May, Jun and Dec 13)
- Audit Committee Annual Report (Apr 13)
- Terms of Reference (Sept 13)
- Internal Audit Performance Indicators (Jun 13)
- FT application (Apr 13)
- Process for gaining assurance from sub-committees (Apr 13)

# 3.   Audit Committee's opinion

Members of the Board should recognise that assurance given can never be absolute, but the Board is still responsible for ensuring there are robust systems in place.  The highest level of assurance that can be provided to the Board is a reasonable assurance that there are no major weaknesses in the Trust's risk management, control and governance processes.

The opinion of the Committee is that with the exception of the internal control issues set out in section 4 below, the Trust has a generally sound system of internal control that supports the achievement of its policies, aims and objectives and those control issues have been or are being addressed.

# 4.    Information supporting opinion

Summarised below is the key information/sources of assurance that the Committee has relied upon when formulating their opinion.

## 4.1  Internal Audit

### 4.1.1      Head of Internal Audit's Opinion

The Head of Internal Audit's Opinion is based on the work undertaken in 2013/14. Nine core internal audit reports and five performance reports were issued. Substantial assurance ratings were given for seven of these, and moderate assurance ratings for the remaining two reports. These moderate assurance ratings were for budgetary control, and asset maintenance.

The cash management and budgetary control reviews did not identify any significant control issues, but did raise serious concerns about the Trust's cash position which were formally communicated to the Chair of the Audit Committee in February 2014.

The overall opinion is that:

*"Significant assurance can be given as there is a generally sound system of internal control, designed to meet the organisation's objectives, and that controls are generally being applied consistently. However, weaknesses in the design and / or consistent application of controls put the achievement of particular objectives at risk. "*

### 4.1.2      Internal Audit Reports and recommendations

The Internal Audit Operational Plan for 2013/14 was approved by the Audit Committee on 18th April 2013. The Trust received the following opinions during 2013/14

| Full Assurance | Substantial Assurance | Moderate Assurance | Limited Assurance | No Assurance |
|:---:|:---:|:---:|:---:|:---:|
| 0 | 7 | 3 | 4 | 0 |

An advisory report on Data Quality - Clinical Coding was carried forward from the plan for 2012/13 and issued in September 2013.

One audit was planned but not completed in year and has been carried forward to the 2014/15 plan. This was Discharge Management, an advisory audit, which will take place later in 2014. The computer based audit which was carried out in year, but reported to May 2014 Audit Committee.

A summary of topics is attached at Appendix 1.

Whilst positive opinions were issued in respect of the majority of audits for the period, limited opinions were provided in four performance reviews, all of which were identified for audit due to Trust concerns:

o    **Falls Management:** Four high priority recommendations made. These related to raising the profile of falls at ward level; consistent prioritisation of alls risks at all levels; updated Falls Group

agenda; and escalating local root cause analysis actions to the Falls Group action plan if applicable.
- o **Complaints Management:** Five high priority recommendations made**.** These related to appraisals for the complaints team; development of standing operating procedures; improved reporting; structured complaint team meetings; and development of a robust complaints tracking process.
- o **Performance Reporting and Follow Up (Finnamore**). Two high priority recommendations made. These related to mapping the outstanding Finnamore recommendations to the existing booking and scheduling action plan; and improving focus and pace of change.
- o **18 week pathway (RTT).** Four high priority recommendations made. These related to developing a plan for further centralisation of booking; developing a comprehensive 18 week training programme; agreeing a universal validation process; and carrying out a comprehensive review of SEMA rules.

Formal actions plans have been agreed to address the significant control weaknesses in these areas. There have been no common weaknesses identified through Internal Audit reviews.

There have been 92 recommendations made by Internal Audit. 84 of these recommendations were completely accepted by management and 5 medium and 3 low priority recommendations were partially accepted.

| High Priority | Medium Priority | Low Priority |
|---|---|---|
| 16 | 45 | 31 |

The Trust has a system of recommendation tracking to follow-up all internal and external audit recommendations.  All outstanding recommendations are discussed with Executive Directors prior to presentation to the Audit Committee to ensure full ownership of recommendation implementation across the Trust.

### 4.1.3    Internal Audit Performance
Deloitte are the Trust's Internal Auditors and have provided progress reports at each meeting which included:
- ▪ Draft and final reports issued to ensure delivery to timescale
- ▪ Overall assurance by report

In 2012/13, which was the first year of the Internal Audit contract, the Committee expressed concern about the number of reports which were submitted at the end of the financial year. This has improved significantly in the 2013/14 audit plan, with all audits completed and reported in line with the plan, with the exception of one item carried forward to 2014/15, at the request of the trust  (discharge audit).

## 4.2  External Audit
The refreshed Audit Plan was presented to the Audit Committee in June 2013. There were no areas of high audit risk identified for the year going forward.

### 4.2.1    External Audit Performance Indicators
The main performance indicator for external audit is performance against the Audit Plan.  All issues are met in line with the Plan.  In addition the Audit Commission submits a satisfaction survey to clients to enable them to comment on performance.

## 4.3  Audit Performance
This Committee considers that there are no issues with Internal and External Audit that affect their ability to support this Committee in discharging its duties.

The Committee has met in private (management excluded) with auditors to enable any other issues of concern to be raised by either party but no such issues have been raised in addition to the matters discussed in open meetings.

## *4.4  Other Assurance Providers*

### 4.4.1      Other Committees
The Audit Committee also receives assurance from risk management committees. The Risk Committee is chaired by the Chief Executive. It met quarterly to review and update the Board Assurance Framework. It also has an overview of the most significant risks on the Trust risk registers to ensure there are robust controls and mitigation actions in place.

### 4.4.2      Local Counter Fraud Service (LCFS)
In line with the Secretary of State's Directions to NHS Bodies on Counter Fraud Measures, the LCFS has produced a written report on the activities undertaken during 2013/14. This includes the activities agreed with the LCFS and Finance Director at the beginning of 2013/14. It covers the seven generic areas of counter fraud activity set out in the NHS Counter Fraud and Corruption Manual. It also includes an analysis of the Trust's compliance with the Secretary of State's Directions, which has not revealed any significant areas of non-compliance.

 The key activities carried out over 2013/14 by the LCFS were:

• 	Given presentations to groups of staff working in areas where they need to be particularly vigilant to the possibility of fraud (eg Facilities and Procurement).

• 	Carried out a spot check of the management of patient's property and money on the wards;

• 	Carried out a review of the use of the e-rostering system in maternity services.

• 	Reviewed a number of policies and identified some areas where best practice guidance could enable the policies to be enhanced to reflect counter fraud arrangements. This was commended as best practice as part of the NHS Protect Quality Assessment in March 2014

• 	Carried out work on the data matches provided by the National Fraud Initiative.

### 4.4.3      Management
The Audit Committee also received assurance through the Trust's audit recommendation tracking system.  All internal and external audit recommendations are followed-up with the lead manager through the Director of Corporate Governance before each Audit Committee meeting to ensure progress against implementation is monitored. All responses and non-responses are shared with the relevant Executive Director so they can ensure that appropriate management action is taken. The Audit Committee receives a full report on the recommendations and progress to implement the identified improvements, with particular attention paid to any outstanding actions. The Trust has implemented a web-based recommendation tracking system. A heat map highlights areas where implementation of recommendations is delayed.

This approach has seen the sustained improvement in the timely implementation of recommendations, with only 4 recommendations overdue at year end.

The Executive Directors have agreed a robust approach to recommendation tracking which includes high level audit recommendations being reviewed by the Hospital Executive Committee.

### 4.5  Assurance Framework

The Assurance Framework was reported regularly to the Audit Committee in 2013/14 and is thoroughly scrutinised by the Committee. The Committee's view is that the Framework identifies the key risks, controls and sources of assurance.  Each Director is responsible for ensuring the accuracy and completeness of the Framework in relation to Trust objectives.

The Audit Committee reviewed the framework at meetings in April, September, and December 2013 and March 2014. In line with year-end reporting requirements, the Audit Committee reviewed the final version of the 2013/14 assurance framework at its May 2014 meeting.

Internal Audit reviewed the Assurance Framework and related processes and gave an opinion of substantial assurance. They noted *"No high priority recommendations have been identified in recent years. The implementation of prior year recommendations demonstrates the progress made by management to improve controls over the BAF and risk management. Whilst four recommendations have been identified in the current year, only one of these related to an item carried forward from the prior year."*

The Audit Committee has relied on the Assurance Framework to provide assurance that systems, policies and people are in place to drive the delivery of objectives by focusing on minimising risk.  The Audit Committee believes that the Assurance Framework provides a comprehensive method for the effective and focused management of the principal risks to meeting objectives and provides a structure for evidence to support the Annual Governance Statement.

### 4.6  Corporate Risk Register

The Corporate Risk Register and the associated controls and assurances have been overseen by the Risk Committee throughout the year.

# 5.  Conclusions

Based on information presented and discussed at the Audit Committee meetings during the year we have concluded the following;

### 5.1  Risk Management

The Audit Committee concludes that the Trust's system of risk identification, recording, reporting arrangements are adequate. The Trust has a comprehensive organisation-wide risk register that records clinical risk, organisational risks and financial risks.  The risk register provides evidence that the Trust is using a common methodology to evaluate risk for both strategic and operational risks.  It also maps to the Integrated Business Plan and Performance Report.

Risk assessments are carried out on an ongoing basis within the Centres, and whenever a process change is about to occur, or a new hazard is identified. Quality Impact Assessments are carried out for all cost improvement schemes. Risk Management processes link the highest risk issues to the strategic objectives, and the Care Quality Commission's standards.

### 5.2  Assurance Framework

The Audit Committee have reviewed the Assurance Framework throughout the year and consider it fit for purpose.  It reflects the key risks facing the organisation and all assurances over the controls mitigating the risks have been considered and any significant gaps in either the assurances or in controls have been addressed.

### 5.3  Governance Arrangements

The Audit Committee believe that the Trust's governance arrangements are robust.   There are a number of different components of governance, in particular corporate governance, clinical

governance, research governance, information governance and financial governance and the Audit Committee scrutinises the processes to ensure they are effective.

The Quality and Safety Committee has key responsibilities in relation to providing assurance to the Board on clinical quality and safety; and driving an improvement culture to promote excellence in patient care. To facilitate close working between the committees, one member of the Audit Committee is also a member of the Quality and Safety Committee and the Medical Director attends both Committees. In addition, the Chair of the Audit Committee attends a meeting of the Quality and Safety Committee each year and similarly the Chair of Quality and Safety Committee attends Audit Committee annually.

## *5.4 Annual Governance Statement*

The draft Annual Governance Statement was considered by the Audit Committee at its meeting in May 2014 and its contents were consistent with the conclusions above. It considers that the Assurance Framework sets out the Trust's objectives and provides a clear template to identify any risks to achieving those objectives and a clear framework against which to measure progress.

It also recognises that there is a Risk Management Strategy in place, endorsed by the Trust Board. It clearly defines the risk management structures, accountabilities and responsibilities throughout the Trust. It also incorporates consideration of the Trust's stakeholders.

There are three significant issues highlighted in the Annual Governance Statement.

- Performance against the A&E, RTT and cancer waiting times targets are slowly improving but is also proving challenging.  Remedial Action Plans are in place.

- In order to address a significant cash problem, the Trust has requested temporary borrowing. The level of temporary borrowing requested amounted to £6 million which was repayable in full by March 2014. The Trust is working with the TDA to access a permanent funding solution. There are particular challenges for the year ahead including the continued financial austerity across the country, the requirement from our commissioners to deliver significant efficiency savings, the transfer of funding through the Better Care Fund which will reduce the amount of overall funding available to hospitals linked to a country-wide expectation that investment will take place in the community to prevent the need for hospital admission and support timely transfer from hospital. Also, the continued additional costs faced by the Trust through duplication across two small hospital sites are not reflected within the "tariff" we receive through the national Payment By Results system and this reduces our ability to deliver the sort of efficiency savings that are needed to support that shift to community whilst also protecting the safety and sustainability of our hospital services.

- The Trust is experiencing day-to-day difficulties in medically staffing some key areas and whilst most gaps are covered this is becoming an increasing struggle and often relies on factors such as consultants "working down" to provide the full level of medical support needed within acute hospitals; This was identified as a new risk in the Board Assurance Framework. These issues form part of the case for change for the NHS Future Fit programme. An independent review will be commissioned to provide assurance for the Trust Board. However there is a need to expedite the consultation in 2014 due to continuing challenges of providing some services across two sites.

# 6. Recommendations

Given the issues identified in Section 4 and our conclusions in Section 5, we recommend that the Board acknowledges that:

- With the exception of the internal control issues described in this document, the Trust has a generally sound system of internal control that supports the achievement of its policies, aims and objectives and those control issues have been or are being addressed

- It has a system in place that identifies any actions that need to be taken to remedy either gaps in control/assurance but this needs to be constantly reviewed

- Continue the processes for recommendation tracking to ensure timely completion of action plans following audit.

*Robin Hooper*
***Audit Committee Chairman***

# Appendix 1:  Summary of Audit Reviews 2013/14

| Report Title | Assurance | Date issued | Date to Audit Committee |
|---|---|---|---|
| Data Quality – Clinical Coding (from 12/13 plan) | Advisory | 11/09/2013 | Sep-13 |
| Board Assurance Framework | Substantial | 03/12/2013 | Dec-13 |
| Budgetary Control and Management Information | Moderate | 21/02/2014 | Mar-14 |
| Cash and Treasury Management | Substantial | 21/02/2014 | Mar-14 |
| Debtors and Income | Substantial | 01/12/2013 | Dec-13 |
| Creditors and Payments | Substantial | 01/12/2013 | Dec-13 |
| Sickness Management | Substantial | 13/08/2013 | Sep-13 |
| Asset Management and Replacements | Moderate | 04/12/2013 | Dec-13 |
| Payroll and payroll analytics | Substantial | 01/03/2014 | Mar-14 |
| Computer based audit | Moderate | 30/04/2014 | May 14 |
| Falls management | Limited | 03/12/2013 | Dec-13 |
| Complaints | Limited | 09/07/2013 | Sep-13 |
| Board Governance Memorandum | Substantial | 27/02/2014 | Mar-14 |
| Performance reporting and follow up (Finnemore) | Limited | 12/02/2014 | Mar-14 |
| 18 week pathway (RTT) | Limited | 25/02/2014 | Mar-14 |

## Carried forward to 2014/15

Discharge management - Advisory