

Paper 6

Recommendation	The Trust Board is asked to NOTE the Audit Committee Annual Report
<input type="checkbox"/> DECISION	
<input checked="" type="checkbox"/> NOTE	
Reporting to:	Trust Board
Date	25 May 2018
Paper Title	Audit Committee Annual Report
Brief Description	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 2017/18.
Sponsoring Director	Director of Corporate Governance
Author(s)	Head of Assurance
Recommended / escalated by	
Previously considered by	Audit Committee
Link to strategic objectives	All
Link to Board Assurance Framework	All
Equality Impact Assessment	<input checked="" type="radio"/> Stage 1 only (no negative impacts identified) <input type="radio"/> Stage 2 recommended (negative impacts identified) <input type="radio"/> negative impacts have been mitigated <input type="radio"/> negative impacts balanced against overall positive impacts
Freedom of Information Act (2000) status	<input checked="" type="radio"/> This document is for full publication <input type="radio"/> This document includes FOIA exempt information <input type="radio"/> This whole document is exempt under the FOIA

Audit Committee Annual Report

2017/18

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 Tier 2 Committees.

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 2017/18. 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 Harmesh Darbhanga
(Chair) | None |
| ▪ Mr Clive Deadman | Director of Metropolitan Housing Trust
Chairman of Energy Innovation Centre Investment
Forum
Director and Shareholder of 1905 Investments Ltd
Director of MLL Ltd
Lecturer at Cranfield University |
| ▪ Dr Chris Weiner | Associate Medical Director – NHS England |

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, 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:

	21 April 2017	12 May 2017*	30 May 2017	15 Sep 2017	8 Dec 2017	4 Feb 2017	TOTALS	
							No of meetings	%
Members								
Harmesh Darbhanga (Chair)	✓	✓	✓	✓	x	x	4/6	67
Clive Deadman	x	✓	✓	✓	✓	✓	5/6	83
Chris Weiner	✓	✓	x	✓	✓	✓	5/6	83
TOTAL	2/3	3/3	2/3	3/3	2/2	2/3	14/18	78
Other attendees								
Chief Exec			✓					
Dir Corporate Governance	✓	✓	✓	✓	✓	✓		
Finance Director	x	✓	D	D	D	✓		
Head of Assurance	x		✓	✓	✓	✓		
Internal Audit	✓		✓	✓	✓	✓		
External Audit	✓		✓	✓	✓	✓		
Counter Fraud	✓		✓	✓	✓	✓		

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

*The May 12th 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 2017.

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 shown below, with the Committee dates in brackets:

Internal Audit (April 17)

Five completed audits were presented

- i. Board Assurance Framework – it was noted that for the fifth year the Trust's processes were awarded 'Substantial' Assurance and the Committee were reminded of the need to see the BAF at least quarterly
- ii. Procedure and Procedure Compliance in Maternity services – it was noted that the initial assurance was 'Moderate' although Quality and Safety Committee will be reviewing this.

- iii. Counter Fraud Annual Report – the Committee was pleased to note that SaTH was the only Trust to be rated green by the Auditor due to their exemplary work in relation to the Code of Business Conduct and that referrals were higher than average and not done anonymously which indicated a positive reporting culture
- iv. Job Planning Review – There was discussion around the need to transfer the current paper/spreadsheet system to an automated software approach to enable greater interrogation and access
- v. Estates – there were some concerns around a lack of documentation and controls in place, which will be monitored by the Workforce Committee.

Security Annual Report (April 17)

The Committee received the 2016/17 and commended the Local Security management Specialist, Jon Simpson for his diligence and the Security Teams on both sites. It was noted that Mr Darbhanga was also the Lead Non-Executive Director for Security

External Audit (May 17)

- (i) **Audit results report** External Audit reported that they were issuing an unqualified opinion on the financial statements; and a qualified opinion on Value for Money, due to the Trust's financial challenges. External Audit have issued a referral to the Secretary of State Under Section 30 (1)(a) of the Local Audit and Accountability Act 2014 due to the breach of the Trusts statutory responsibility to achieve a breakeven financial position at 31 March 2017, with the Trust reporting a deficit of £5.6M and a cumulative deficit of £54M
- (ii) **'WannaCry' Ransomware Attack** A briefing note on the recent global ransomware attack was discussed. The Trust was not badly affected by the attack. The Chief Executive stressed that this was due to good management in two key aspects: the Trust had taken a strategic decision to upgrade software from Windows XP and had invested in this; and, on the evening of the attack, took an operational decision to isolate systems, which greatly limited any impact.

Internal Audit (Sept 17)

- (i) **Medical Job Planning**
The Committee expressed great concern that the Trust appears to be an outlier in terms of not having an electronic job planning system for senior medical staff; and strongly recommended that this is considered as a matter of urgency. The cost of a system is c. £30,000 pa with £12,000 implementation costs.
- (ii) **Maternity services**
The Care Group Director attended to update Audit Committee on progress in Maternity Services. Deloitte commended the Care Group and the Complaints Department for the changes introduced.
- (iii) **Recommendation tracking**
The Committee agreed to extend the deadline for a recommendation from the payment and creditors report. The report recommended that a board approved policy / procedure document is created which stipulates a recommended formal approach to the prioritisation of payments to suppliers, and considers a more data driven alignment of payment timing to the cashflow position of the Trust. The deadline was extended until December to allow a procedure to be developed and approved by November Trust Board.

Private Patients (Dec 17)

The Local Counter Fraud Specialist presented the results of this audit. The Committee required the audit actions to protect Trust from potential conflict between private and NHS work and asked for

several more rigorous actions than had been proposed. In particular the committee felt it important transparency was crucial in Fertility, where the Trust had recently invested scarce NHS resources in enhancing the facilities. The Committee recommended that the Executive Directors need to agree a private patient approach, which should be considered during the current business planning round. This will be discussed at Executive Directors in January 2018.

Following this a robust policy needs to be developed and both strategy and policy will be recommended to the Board.

Business Continuity Update (Dec 17)

The Emergency Planning and Resilience Officer attended to give an update on progress since he came into post earlier this year. He believes that progress is being made in embedding emergency and business continuity planning. He has recently delivered training to the Emergency Departments with further training planned; a multi-agency desk top exercise will be delivered early next year. Internal Audit will be carrying out work on business continuity in the next quarter.

Internal Audit (Feb 18)

- (i) **Cash and Treasury Management** – Moderate assurance was given. Processes are good but the cash position has deteriorated which is reflected in the ‘moderate’ opinion. The system is well-run and would warrant ‘substantial’ but for the cash position. There were two medium recommendations. This report will be presented to Sustainability Committee.
- (ii) **Budgetary Control and Financial Reporting** – Limited assurance was given. This audit focussed on the work of the Confirm and Challenge Group and Sustainability Committee, and buy-in to the Cost Improvement Programme and the difficulty faced when the organisation is not truly engaged. Ten recommendations were made and five have been completed. However, there was concern about the lack of ownership and engagement from the broader organisation. The report really focussed on the governance and sustainability around the transformation agenda. This report also highlighted a number of recommendations not fully completed. The key issue is around behaviour and accountability culture and the need to take action to address this.

Concern was expressed that Internal Audit felt that a number of follow-up recommendations had not been completely implemented, despite action owners previously closing off the recommendations. It was recognised however, that generally SaTH was responsive and improvements had been made in all areas, especially with implementation of high priority recommendations. There was a discussion about materiality of findings.

Audit Committee recommended that the Board need to spend some time at a development session considering the behaviour and accountability culture and how engagement can be increased to ensure sustainable, effective services for the citizens of Shropshire. This report will be presented to Sustainability Committee.

Deloitte Disclosures Report (Feb 18)

Deloitte advised that the Trust has the best system of all its clients for capturing disclosures of interests, although further work and support from the Care Groups is needed going forward to ensure the Conflicts of Interest Policy is being followed by all Trust employees (including Trust Board).

2.5 Post Year end events

At the April 2018 audit committee meeting concerns were raised about the number of previous audit actions which were being re-opened by audits and the quality of executive oversight over the processes which agreed audit actions and allowed them to be closed on completion. This will be a focus in the early part of 2018.

2.6 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 with the exception of the special meeting on May 12th

- Audit Recommendation Tracking
- Internal Audit Update
- Counter Fraud update
- Board Assurance Framework

The following reports were also presented to the Committee:

- External Audit Update (May, Sept and Dec 2017 and Feb 2018)
- Annual Accounts (May 12th and May 30th 2017)
- Annual Governance Statement (Apr, May 30th 2017)
- Annual report (Apr, May 12th and May 30th 2017)
- Audit Committee Annual Report (Apr 17)
- Security Annual Report (Apr 17)
- Internal Audit Contract (Apr 17)
- Declarations of interest updates (Apr, May 30th 2017 and Feb 2018)
- Audit Committee self-assessment (Apr and May 30th 2017)
- Maternity report recommendations update (Sept 17)
- IT disaster recovery and business continuity planning recommendations update (Dec 17)

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. In particular the Audit Committee is encouraged and strongly welcomes the 'open' behaviour of the executive and their appetite and preparedness to focus attention on areas of weakness.

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

Deloitte were reappointed as the Trust's Internal Auditors in April 2017.

4.1.1 Head of Internal Audit's Opinion

The Head of Internal Audit's Opinion is based on the work undertaken in 2017/18. The overall opinion for the year ended 31 March 2018 is that moderate assurance can be given as there is a generally sound system of internal control designed to meet the organisation's objectives but the level of non-compliance in certain areas puts some system objectives at risk. There is a basically sound system of

internal control for other system objectives. The weaknesses identified which put some system objectives at risk relate to Income & Debtors, Procurement (Contracted Expenditure & Stores), Policy and Procedure Compliance in Maternity Services (Non-core review) and Computer based IT Controls.

Substantial assurance has been given in relation to the Board Assurance Framework and risk management arrangements at the Trust

4.1.2 Internal Audit Reports and recommendations

Deloitte were reappointed as the Trust’s Internal Auditors in April. Due to a delay in reappointment, the Internal Audit Plan was not approved by the Audit Committee until September 2017. The Trust received the following opinions during 2017/18

	Full Assurance	Substantial Assurance	Moderate Assurance	Limited Assurance	No Assurance
Core Audits	0	3	3	1	0
Performance reviews	0	0	0	3	0

A summary of topics is attached at Appendix 1.

	High Priority	Medium Priority	Low Priority
Core Audits	7	18	4
Performance reviews	11	10	3

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. Only one recommendation was overdue at year end.

4.1.3 Internal Audit Performance

Internal Audit has provided progress reports at each meeting which included:

- Draft and final reports issued to ensure delivery to timescale
- Overall assurance by report

Due to the delay in reappointment, the Internal Audit programme did not commence until quarter 2 and so five reports were not presented to Audit Committee until April 2018. In addition, two planned reports were not completed in year:

- The Audit Committee agreed to use the planned audit days for the CIP audit as part of work to be undertaken in 2018/19 on Financial Governance
- The fieldwork for Care Group Governance arrangements, was largely completed in year, but the report will be submitted to Audit Committee in September 2018.

4.2 External Audit

The External Auditors changed from E&Y to KPMG at the beginning of the financial year. The refreshed Audit Plan was presented to the Audit Committee in December 2017. The areas of high audit risk identified were management override of controls, and recognition of NHS and non-NHS income. Three areas of high risk relating to the VFM opinion were identified: Financial sustainability including delivery of the agency cap and operational performance; Working with partners including the impact of Future Fit; and Working with regulators including the outcome of regulatory inspections i.e. CQC.

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 the Tier 2 Committees. The Tier 2 Committees, Workforce, Performance, and Quality & Safety, are chaired by Non-Executive Directors and review and update the relevant Board Assurance Framework risks at each meeting.

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 2017/18. This includes the activities agreed with the LCFS and Finance Director at the beginning of 2017/18. 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 resulted in a green rating across the standards.

The key activities carried out were:

- A follow-up review of Consultant Job Planning took place. As part of this work discussions took place with the Trust on the format and contents of Consultant Dashboards and KPIs.
- A proactive exercise examining the anti-fraud controls within the Estates Department has been completed.
- The on-going monitoring of fundamental key anti-fraud controls through the Continuous Controls Cycles has continued. Areas covered were Conflicts of Interest; Recruitment; Overtime Claims; Agency Timesheets; and Patients' Property.
- Worked with the Trust to further enhance the process around declarations of interest
- 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.

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.

The Audit Committee is looking for improved assurance that audit actions are agreed and eventually closed with effective oversight by the executive. There is also a need to understand better why a number of recommendations from previous audits are being re-raised in subsequent audits. The Executive Directors have recently agreed a robust approach to recommendation tracking which includes high priority audit recommendations being reviewed by the Executive Directors.

4.5 Assurance Framework

The Assurance Framework was reported to the Audit Committee three times during the year. 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.

Internal Audit reviewed the Assurance Framework and related processes and gave an opinion of substantial assurance.

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 Trust Board 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. Risk Management processes link the highest risk issues to the strategic objectives, and the Care Quality Commission's fundamental standards.

In particular the Audit Committee is encouraged and strongly welcomes the 'open' behaviour of the executive and their appetite and preparedness to focus attention on areas of weakness.

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.

5.4 Annual Governance Statement

The draft Annual Governance Statement was considered by the Audit Committee at its meeting in April 2018 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.

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.

Clive Deadman

Audit Committee Chairman

Appendix 1: Summary of Audit Reviews 2017/18

Ref	Title	Assurance	Date to Audit Committee
IA17/18CR001	Board Assurance Framework	Substantial	Apr-18
IA17/18CR002	CIP	Not completed in year	
IA17/18CR003	Cash and treasury management	Moderate	Feb-18
IA17/18CR004	Income and debtors	Moderate	Feb-18
IA17/18CR005	Payments and creditors	Substantial	Dec-17
IA17/18CR006	Budgetary control	Limited	Feb-18
IA17/18CR007	Payroll	Substantial	Feb-18
IA17/18CR008	General IT controls	Moderate	Apr-18
IA17/18PR001	Business continuity planning (BCP)	Limited	Apr-18
IA17/18PR002	Outpatient appointment process	Limited	Apr-18
IA17/18PR003	Temporary staffing	Limited	Apr-18
IA17/18PR004	Care Group Governance arrangements	Not completed in year	