

COVERHEET

Meeting	Board of Directors' meeting in PUBLIC
Paper Title	Audit Committee Annual Report 2019/20
Date of meeting	8 th October 2020
Date paper was written	30 September 2020
Responsible Director	Director of Corporate Governance (Interim)
Author	Chair of Audit Committee
Presenter	Tony Bristlin - Chair of the Audit Committee

Executive Summary

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

It is good practice to review the business of corporate committees annually, and in order to demonstrate that Audit Committee has discharged its duties, an Annual Report has been drafted which summarises the work of the committee over the 2019/20 financial year. This report includes information provided by Internal Audit, External Audit and other Assurance Providers, including other Assurance Committees to the Board.

The opinion of the Committee is that a number of significant control issues were noted for the 2019/20 year and reflect the position stated within the Annual Governance Statement 2019/20.

The annual report was approved by the Audit & Risk Assurance Committee at the meeting on 10 September 2020 and is presented to the Trust Board for information.

Previously considered by

Audit & Risk Assurance Committee (Sep-20)

The Board (Committee) is asked to:

<input type="checkbox"/> Approve	<input checked="" type="checkbox"/> Receive	<input type="checkbox"/> Note	<input checked="" type="checkbox"/> Take Assurance
To formally receive and discuss a report and approve its recommendations or a particular course of action	To discuss, in depth, noting the implications for the Board or Trust without formally approving it	For the intelligence of the Board without in-depth discussion required	To assure the Board that effective systems of control are in place

Link to CQC domain:

Safe

Effective

Caring

Responsive

Well-led

Link to strategic objective(s)

- PATIENT AND FAMILY Listening to and working with our patients and families to improve healthcare
- SAFEST AND KINDEST Our patients and staff will tell us they feel safe and received kind care
- HEALTHIEST HALF MILLION Working with our partners to promote 'Healthy Choices' for all our communities
- LEADERSHIP Innovative and Inspiration Leadership to deliver our ambitions
- OUR PEOPLE Creating a great place to work

Link to Board Assurance Framework risk(s)

All

Equality Impact Assessment

- Stage 1 only (no negative impact identified)
- Stage 2 recommended (negative impact identified and equality impact assessment attached for Board approval)

Freedom of Information Act (2000) status

- This document is for full publication
- This document includes FOIA exempt information
- This whole document is exempt under the FOIA

Financial assessment

n/a



The Shrewsbury and
Telford Hospital
NHS Trust

Audit Committee Annual Report 2019/20



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 Assurance Committees to the Board.

2. Audit Committees opinion

The Trust Board is responsible for ensuring that the Trust follows the principles of sound governance. The Board is required to produce statements of assurance that it is doing its "reasonable best" to ensure the Trust meets its objectives and protects patients, staff, the public, and other stakeholders against risks of all kinds.

The opinion of the Committee is that a number of significant control issues are to be noted for the 2019/20 year. These are described in within the Annual Governance Statement 2019/20 and relate primarily to:

- Regulatory compliance and quality of services
- Governance
- Poor financial performance
- Quality and stability of the Board of Directors

These issues have been fully disclosed to our regulators and formal action plans have been agreed to address control weaknesses in all areas where these have been identified. Implementation of the recommendations are being tracked and reported to the Trust Board within the timescales agreed as part of the NHSI/E Special Measures regime.

It was also noted that further improvements can and should be made to the Business Assurance Framework based on the recommendations of the internal auditor, Deloitte.

3. Information Supporting the Committees Opinion

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

3.1 Internal Audit

Deloitte remained the Trust's Internal Auditors until April 2020.

3.1.1 Head of Internal Audit's Opinion

The Head of Internal Audit's Opinion is based on the work undertaken in 2019/20. Based on the assurance given for the core reports issued, the current financial position of the Trust, and the strategic, governance, and operational issues noted in their report, Deloitte issued an overall opinion for the year of Limited. Limited assurance was provided that the Assurance Framework is sufficient to meet the requirements of the 2019/20 AGS and that there was an adequate and effective system of internal control to manage the significant risks identified by the Trust. A number of control Issues, classified as High Priority by our core internal audit processes were noted during the 2019/20 year. These are described in the Annual Governance Statement and were in the areas of Income and Debtors, Fixed Assets, Business Cash Management, Payroll and Board Assurance Framework. Formal action plans have been agreed to address significant control weaknesses in all areas where these have been identified. Implementation of the recommendations is tracked and monitored by the Audit Committee.

3.1.2 Internal Audit Reports and recommendations

The Trust received the following opinions during 2019/20

	Full Assurance	Substantial Assurance	Moderate Assurance	Limited Assurance	No Assurance
Core Audits	0	2	3	2	0
Performance Reviews*	0	0	0	2	0

* CNST review (IA19/20PR002) formed part of the advisory work plan for 2019-20 and therefore was not given an assurance rating.

More detail on the topics reported on is attached at Appendix 1.

	High	Medium	Low
Recommendation Priority Status Total			
<ul style="list-style-type: none"> Core Programme and Risk Based Performance Reviews Programme 	31	41	13

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. Recommendation tracking is monitored by the Audit Committee, and is further described in section 3.4.3

Internal Audit provided progress reports at each meeting which included:

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

3.2 External Audit

ISA 360 report for 2019/20. Based on their findings of 2019/20 audit work, the external Auditor (KPMG) concluded an unqualified audit opinion on the Trust's 2019/20 accounts, but also concluded that the Trust did not have adequate arrangements to secure economy, efficiency and effectiveness in its use of resources and issued a qualified conclusion on the Trust's 2019/20 Value for Money arrangements. This was based on:

- The Care Quality Commission (CQC) overall rating of the Trust as 'Inadequate' was again concluded when CQC undertook a comprehensive inspection of Trust services between November 2019 and January 2020.
- The Trust's accumulate deficit at 31 March 2020 of £116.216m resulted in a continued breach of the breakeven duty, and the auditor was obliged to issue a referral to the Secretary of State under section 30 of the Local Audit and Accountability Act 2014.
- An independent review into maternity care at the Trust is being conducted by an independent team chaired by Donna Ockenden. This commenced in 2017 and the remit of the review was subsequently widened and at the time of this report, the review involved 1,862 case. A report of the findings of this review is yet to be published.
- The Trust continues to miss a number of performance indicators including the four hour accident and emergency target and the 62 day cancer target.

3.3 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 Trust commissioned the Deloitte Advisory Team to provide Financial Advisory and Project Management Office support in 19/20. This work is addition to the Internal Audit and LCFS services provided. Deloitte provided assurances on the separation of work

between the two teams and there was no cross over of services and separate quality control measures. On the basis of these assurances the Audit Committee were satisfied there was no conflict between the Internal Audit and non-audit work.

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. Transitional arrangements between Deloitte and MIAA as internal auditor have been managed appropriately.

3.4 Other Assurance Providers

3.4.1 Other Committees

The Audit Committee also receives assurance from the Assurance Committees of the Board. The 'Tier 2' Committees (as they were referred to in 2019/20), Workforce, Performance, Sustainability and Quality & Safety, were chaired by Non-Executive Directors, reviewing and recommending updates to the relevant Board Assurance Framework risks at each meeting for discussion and approval by the Trust Board.

3.4.2 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 2019/20. This includes the activities agreed with the LCFS and Finance Director at the beginning of the year and is based on the areas of counter fraud activity set out in the Standards for NHS Providers around fraud, bribery and corruption. 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.

During 2019/20, LCFS provided the Trust with 99 days of proactive counter fraud work. A further 5 days were spent undertaking preliminary enquiries into the validity of 11 referrals received.

Work was undertaken targeted at potential weaknesses identified from investigation of referrals received, from fraud risk assessment process, from guidance issued by the NHS Counter Fraud Authority, or from concerns raised by management to include:

- Waiting List Initiative (WLI) Payments Review
- Consultant Annual Leave Review
- Management and Control of Prescriptions (FP10s)

Particular emphasis has been placed upon raising the profile of the LCFS across the Trust in a cost and time effective manner. The effectiveness of this work is demonstrated through the staff survey results and number of referrals received.

2019 guidance was produced by the NHS CFA Fraud Prevention Unit which identifies a number of fraud risk areas within the procurement process. The LCFS provided suggestions to strengthen governance measures including policies around conflicts of interest, gifts and hospitality registers and a whistleblowing (Report Concerns at Work).

3.4.3 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 utilises a web-based recommendation tracking system.

During 19/20 the audit committee requested on a number of occasions that that Executive Directors attend the committee to explain where deadlines for the completion of audit recommendations were not

completed or extensions to the agreed timelines were being requested, on some occasions resulting in agreed deadline extensions. The Audit Committee is looking for improved assurance that audit actions are agreed and eventually closed with effective oversight by the executive.

Acting upon recommendations of the Chair of the Trust, the Audit Committee widened its remit to include Risk Assurance in 2019/20 and the Committee reviewed and amended its Terms of Reference accordingly in October 2019

3.5 Assurance Framework

With the requirement for all NHS Chief Executive Officers to sign an Annual Governance Statement (AGS) as part of the statutory accounts and annual report, there is a need for Boards to be able to demonstrate that they have been properly informed about the totality of risks, both clinical and nonclinical. In order to comply with these requirements, the Board needs to be able to provide evidence that it has systematically identified objectives and managed the principal risks to achieving them. The BAF fulfils this purpose by providing the Trust with a method for the effective and focused management of its principal risks and providing a structure for the evidence to support the Annual Governance Statement. In addition, a robust risk management policy and embedded risk management framework facilitate the management of risk throughout the organisation, from corporate risk through to daily operational risk.

The Board Assurance Framework (BAF) enables the Board to undertake focused management of the Trusts strategic risks. The BAF structure was reviewed and revised in line with best practice following feedback from the CQC and the Trusts Internal Auditor in 2018/19. The BAF includes three levels of ratings assessment, three levels of assurance, mitigations, forthcoming actions and direction of travel. Each risk has an executive lead and is overseen by a Board Committee, whereby management actions and amendments are recommended which are proactively monitored and reported to the Trust Board. Work was also undertaken in-year with the NHSI Improvement Director and Assurance Committees to review and revise all the risks. From this, the Quality & Safety Committee recommended to the Board that an additional risk around sepsis care/deteriorating patient be added was agreed. A further significant risk to delivery of the Trusts strategic objectives emerged in early 2020 with the outbreak of the Coronavirus COVID-19 which quickly escalated into a pandemic. This was added to the trusts strategic risks.

The Audit Committee has relied on the Assurance Framework to provide assurance that systems, are in place to drive the delivery of objectives by focusing on effective risk management. The Audit Committee noted that the Assurance Framework is designed to provide 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. The Internal Audit review of the Trust's Board Assurance Framework was given Limited Assurance for 2019/20.

3.6 Corporate Risk Register

Operational risk assessment is a key feature of all normal management processes. All areas of the Trust have an ongoing programme of risk assessment which inform the local risk registers. Operational risks are identified and evaluated using the Trust risk matrix which feeds into the decision making process about whether a risk is considered acceptable or not. Unacceptable risks require treatment by way of control measures and action plans to mitigate them. The risk registers are reviewed regularly through governance structures at both operational and corporate level, dependent on the severity of each risk. If a risk cannot be resolved at a local level there is an established route for escalation through the operational management structure and ultimately to the Trust Board. Each risk and related action have an identified owner who is responsible for monitoring and reporting on the risk appropriately and for implementing changes to mitigate the risk in a specified time frame. The highest rated risks are reviewed monthly at a corporate level and at monthly Executive Challenge meetings with each Care Group. Due to the deterioration in assurance from the Internal Auditor, the Trust has commenced reviewing its risk management approach for 2020/21.

4. The Role and Operation of the Audit Committee

4.1 Membership of the Committee

The members of the committee, their attendance at meetings in 2019/20 and their interests disclosed in the Trusts Register of Interests during 2019/20 were:

Member	Committee Attendance	Interests declared (as at 26 March 2020)
Mr Tony Bristlin <i>(Chair)</i>	6 of 6	<ul style="list-style-type: none">• Non-Executive Director - Belong Ltd,• SaTH Charity Trustee
Mrs Teresa Boughey <i>(member from Sep-19)</i>	2 of 3	<ul style="list-style-type: none">• Director – Jungle HR Ltd,• Director – Inclusion 247 Ltd,• Business Board member - Women and Enterprise All Party Parliamentary Group,• Member - Women and Work All Party Parliamentary Group,• School Governor Castle House Trust Ltd (until 08/01/20),• Daughter works at Robert Jones & Agnes Hunt,• SaTH Charity Trustee
Mr David Brown <i>(member from Sep-19)</i>	2 of 3	<ul style="list-style-type: none">• Independent Board Advisor - MFL Engineering,• Board Trustee - Telford & Wrekin Carers Partnership,• SaTH Charity Trustee
Mr Tony Allen <i>(As Associate NED from May 2019, NED prior to this)</i>	6 of 6	<ul style="list-style-type: none">• Lay member - Dudley CCG,• Non-Executive Director - Mastercall Out of Hospital,• Independent Advisor - Inclusion Housing,• Non-Executive Director - BRIO Leisure,• Director - TNL Consulting Ltd
Dr Chris Weiner <i>(member until May-19)</i>	1 of 1	<ul style="list-style-type: none">• Member of NHS England (West Midlands)

Other Non-Executive directors are able to attend this meeting and key senior Trust personnel and Internal and External Audit teams are also in attendance. The Finance Director is the lead Executive for Audit Committee, and Director of Corporate Governance also normally attends the Committee. The Director of Corporate Governance provides support to the Audit Committee Chair and its members.

4.2 Terms of Reference

The Terms of Reference were reviewed at the meeting on 24th October 2019. At the meeting on 24 May 2019, the Committee Chair reported that the Trust Chair had asked for consideration to expand the remit of the Audit Committee to include risk to provide further assurance to the Trust Board for the Board Assurance Framework and Corporate Risk Register. The Head of Internal Audit confirmed that it is not uncommon for other client organisations to combine audit and risk and it was therefore approved the recommendation that the committee become the Audit & Risk Assurance Committee¹ with immediate effect, taking on additional responsibilities as articulated within the revised Terms of Reference.

4.3 Reporting from the Committee

An outcome summary of the Audit Committee is formally reported at the public session of the Trust Board by the Chair of the Audit Committee.

¹ As this was an in-year change, the author continues to refer to 'Audit Committee' for the purpose of this document

4.4 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 10:

- Audit Recommendation Tracking
- Internal Audit Update
- Counter Fraud update
- Board Assurance Framework/High risk report

Being key attendees within the Audit Committee, both the External and Internal Audit Services provided regular updates throughout 2019/20. The following reports were also presented in-year to the Committee:

- Annual Accounts
- Annual Governance Statement
- Annual Report
- Audit Committee Annual Report
- Security Annual Report
- Internal Audit Tender for the period 2020-2023 (includes Local Counter-Fraud Service)
- External Audit Tender for the period 2020-2023
- Audit Committee self-assessment

5 Appointment of new Internal Auditors (MIAA) and re-appointment of External Auditors (KPMG)

Following the conclusion of the contracted periods for our external and internal auditors as at 31 March 2020, an open tendering process was conducted in line with NHS procurement guidance. This concluded with KPMG being re-appointed for as the Trusts external auditors until 31 March 2023 and MIAA being contracted to provide Internal Audit Services to the Trust until 31 March 2024. The Trust has an option to extend both contracts by one year.

6 Conclusions

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

6.1 Risk Management

The Audit Committee concurs with the HOIA opinion that the Trust's system of risk identification, recording, reporting arrangements provide Limited Assurance. The Trust has a comprehensive organisation-wide risk register that records all risks including those which are clinical, organisational and financial. The risk register provides evidence that the Trust is using a common methodology to evaluate risk for both strategic and operational risks. Strategic and operational risks are reviewed together as a standing item at all sub-committees to the Board, also mapping to the Integrated Business Plan and Performance Report.

Risk assessments are carried out on an ongoing basis within the Care Groups and Service Centres, and whenever a process change is about to occur, or a new hazard is identified. Risk Management processes link the highest rated risks to the strategic objectives. 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.

Further work is being undertaken in 20/21 to improve the process including the introduction of a senior risk management committee and enhanced supporting processes.

6.2 Assurance Framework

The Audit Committee has approved revisions within the Board Assurance Framework, reviewing it throughout the year, and continues to work with subject matter experts to continually improve. It reflects the key risks facing the organisation and all assurances over the controls mitigating the risks have been considered by all Assurance Committees and the Board throughout the year, and any significant gaps in either the assurances or in controls have been transparent.

6.3 Governance Arrangements

During the year, concerns have been raised with the Audit Committee around the robustness of the Trust's governance arrangements. There are a number of different components of governance, in particular clinical governance, research governance, information governance and financial governance and the Audit Committee scrutinises the processes to ensure they are effective. The Board has been notified where assurances are insufficient and the Committee has directed independent scrutiny to establish root causes where instances of poor governance have been identified.

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, Internal Audit Recommendations remitted to other Assurance Committees are monitored by the Audit Committee and Executive Directors who are the sponsoring Director for a core Audit or Performance Review are requested to attend and update the Audit Committee should exceptions to action delivery emerge.

6.4 Annual Governance Statement

The draft Annual Governance Statement was considered by the Audit Committee at its meetings in May and June 2020; its contents being consistent with the conclusions above. A number of significant control issues are noted for the 2019/20 year. These are described in sections 4 and 8.2 of the AGS and relate primarily to:

- Regulatory compliance and quality of services
- Governance failures
- Poor financial performance
- Quality and stability of the Board of Directors

These issues have been fully disclosed to our regulators and formal action plans have been agreed to address control weaknesses in all areas where these have been identified. Implementation of the recommendations is being tracked and reported to the Board within the timescales agreed as part of the NHSI/E Special Measures regime.

However, there is also recognition 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 and also incorporates consideration of the Trust's stakeholders.

7 Recommendations

Given the opinion noted in section 3 and our conclusions in Section 6, we recommend that the Board acknowledges that:

- Given the internal control issues described in this document, the Trust must take action to improve its systems of internal control that support the achievement of its policies, aims and objectives and those control issues are currently 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, and senior leaders held to account

Tony Bristlin

Audit Committee Chair

Appendix 1: Summary of Audit Reviews 2019/20

Ref	Title	Assurance	Date to Audit Committee
IA19/20CR001	Board Assurance Framework	Limited	25 Jun-20
IA19/20CR002	General IT controls	Moderate	02 Apr-20
IA19/20CR003	Cash Management	Limited	06 Dec-19
IA19/20CR004	Income and Debtors	Moderate	06 Dec-19
IA19/20CR005	Payments and Creditors	Substantial	06 Dec-19
IA19/20CR006	Fixed Assets	Moderate	06 Dec-19
IA19/20CR007	Payroll	Substantial	06 Dec-19
IA19/20PR001	Workforce – Recruitment Process	Limited	02 Apr-20
IA19/20PR002	CNST Submission Review	Not rated	14 Feb-20
IA19/20PR003	Datix Clinical Incident Management	Limited	25 Jun-20