



East London
NHS Foundation Trust

AUDIT COMMITTEE ANNUAL REPORT

2018/19

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1. Introduction

- 1.1 The audit committee is a principal committee of the Trust Board established with **approved** terms of reference which are consistent with those contained in the Audit Committee Handbook published by Healthcare Financial Management Association and the Department of Health and generally accepted UK Corporate Governance guidelines.

2. Objectives

2.1 In summary the main responsibilities of the audit committee are:

- to monitor the integrity of the financial statements of the Trust and any formal announcements relating to the Trust's financial performance, reviewing significant financial reporting judgements contained in them;
- to review the Trust's system of integrated governance, its internal financial controls and the Trust's internal control and risk management systems across the whole of the Trust's activities (both clinical and non-clinical);
- to monitor the development, operation and effectiveness of the Board Assurance Framework
- to monitor and review the effectiveness of the Trust's internal audit function, to agree its annual plan, to review its reports and monitor implementation of their recommendations and to review the annual Head of Internal Audit Opinion;
- to monitor and review the effectiveness of the Trust's Local Counter Fraud Specialist, to agree its annual plan, to review its reports and monitor implementation of their recommendations;
- to make recommendations to the board relation to the appointment of the external auditor and terms of engagement of the external auditor;
- to review with the external auditor the audit plan and to review all external audit reports before submission to the Board;
- to review and monitor the external auditor's independence and objectivity and the effectiveness of the audit process, taking into consideration relevant UK professional and regulatory requirements;
- to develop and implement policy on the engagement of the external auditor to supply non-audit services, taking into account relevant ethical guidance regarding the provision of non-audit services by the external audit firm; and to report to the board, identifying any matters in respect of which it considers that action or improvement is needed, and making recommendations as to the steps to be taken; and
- To report to the board on how it has discharged its responsibilities.

3. Membership

3.1 Throughout the year under review the Audit Committee consisted of the following five independent non-executive directors:

- Paul Hendrick (Chair) until 31st October 2018
- Anit Chandarana (Chair) from 1st November 2018
- Mary Elford
- Kingsley Peter until 31st October 2018
- Eileen Taylor from 1st November 2018

- 3.2 Brief CVs of all existing members are available on the Trust's website.
- 3.3 The Audit Committee invited the following to attend on a regular basis to assist it in fulfilling its functions:
- Chief Finance Officer
 - Deputy Director of Finance
 - Director of Corporate Affairs
 - Internal Audit representatives
 - External Audit representatives
 - Local Counter Fraud Service representatives.
- 3.4 The Committee members held private discussions with both the external and internal auditors during the year.

4. Committee Meetings

- 4.1 The Audit Committee has met six times during 2017/18 financial year. Below are details of the attendance of its members:

| MEMBER | ATTENDANCE |
|-----------------|-------------------|
| Paul Hendrick | 4/4 |
| Anit Chandarana | 1/2 |
| Mary Elford | 6/6 |
| Kingsley Peter | 0/4 |
| Eileen Taylor | 1/2 |

5. Main areas of activity

5.1 Governance and Risk Management

- 5.1.1 The Committee assesses and monitors the completeness and adequacy of the risk management system and the extent to which it is embedded in the Trust. It considers that adequate systems are currently in place but continuous review and improvement by executive management is essential and the Board needs to continuously review emerging risks resulting from the changing environment in which the Trust is operating.
- 5.1.2 The Committee receives regular reports on the Board Assurance Framework. It assesses its adequacy and fitness for purpose and makes recommendations accordingly. Where appropriate, the Committee has challenged executive management on aspects of the assurance framework and has instituted 'deep dives' into particular areas of concern.
- 5.1.3 The Committee has reviewed all relevant disclosure statements of the Trust, more specifically as set out in this report.

5.2 External Audit

- 5.2.1 For the Financial year 2018/19, Grant Thornton LLP acted as external auditors of the Trust, having been appointed as a result of a tender process which the Committee supervised and

participated in. The audit opinion of the annual accounts for 2018/19 was an unqualified opinion.

5.2.2 In relation to external audit, the Committee:

- reviewed the Annual Accounts and Annual Report and made recommendations as appropriate to the Board
- reviewed, with the external auditors the external audit plan, commenting in particular on any specific areas of risk
- considered all reports and recommendations from the external auditors
- considered in particular the external auditors report to those charged with governance prior to its submission to the Board
- reviewed arrangements to ensure independence of the external auditors.

5.3 Internal Audit

5.3.1 Internal Audit provides an independent and objective opinion to the Audit Committee, the Accountable Officer and the Board on the degree to which risk management, control and governance in the Trust support the achievement of the its agreed objectives.

5.3.2 During 2018/19 Internal Audit services for the Trust were provided by RSM UK LLP.

5.3.3 The Committee reviewed and approved the content of the Internal Audit plan for 2018/19 at its meeting on 23rd April 2018, based on the risk profile of the Trust. The plan was also informed by comment and input from the wider board prior to the audit committee approval at the planning stage. The Committee received progress reports against the delivery of the plan at each meeting together with completed individual audit reports. Each audit report, which included an overall opinion on the adequacy of the system and application of controls, was considered in detail by the Committee, together with management responses and proposed action plans. The Internal Auditors undertook an ongoing programme of follow up work around the implementation of recommendations and reported their status at each Committee meeting.

5.3.4 The table below shows a summary actual outcome of the audits carried out in 2017/18 compared to 2016/17:

| ASSURANCE LEVEL | 2017/18 | | 2018/19 | |
|-----------------|----------|------------|-----------|------------|
| | Actual | % | Actual | % |
| Substantial | 2 | 22 | 1 | 8 |
| Reasonable | 3 | 33 | 9 | 75 |
| Partial | 4 | 44 | 2 | 17 |
| No Assurance | 0 | 0 | 0 | 0 |
| Total | 9 | 100 | 12 | 100 |

5.3.5 Details of audit assignments completed in 2018/19 and the level of assurance obtained is summarised below:

| ASSIGNMENT | ASSURANCE LEVEL |
|-------------------------------------|-----------------|
| Community Health Service Governance | Substantial |
| Fire Safety | Reasonable |
| Mental Health Act | Partial |
| Trust Internal Clinical Assurance | Reasonable |

| | |
|---|---------------|
| Process | |
| Divisional Governance | Reasonable |
| Information Governance Review Including GDPR & DSPT | Advisory only |
| CIP Benefits Realisation | Reasonable |
| Accounts Payable | Reasonable |
| Risk Management and Quality Performance Framework | Advisory only |
| Supplier Contract Management | Reasonable |
| Risk Management Culture & Board Assurance Framework | Reasonable |
| Payroll | Reasonable |
| Data Quality | Partial |
| STP/Place Based System Governance | Reasonable |

5.3.6 The Internal Auditors are required to give the Head of Internal Audit Opinion on the effectiveness of the system of internal control for the financial year. This Opinion contributes to the assurances available to the Accountable Officer and the Board which underpin the Board's own assessment of the effectiveness of the organisation's system of internal control. The Opinion supports the Board in the completing its Annual Governance Statement.

5.3.7 The Head of Internal Opinion was that "The organisation has an adequate and effective framework for risk management, governance and internal control" whilst at the same time noting that "our work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective".

5.4 Counter Fraud

5.4.1 The Trust maintains counter fraud and security management arrangements which are provided by the Local Counter Fraud Specialist (LCFS). The work of the LCFS includes ensuring the counter fraud ethos is embedded in the Trust's strategic governance, publicising and raising awareness in the Trust of associated risks, deterring the commission of crime and holding to account those who do commit crime.

5.4.2 The Committee approved the LCFS programme of work and received regular updates on its work during the year and was notified of emerging fraud risks which might affect the Trust. The Committee received the Counter Fraud Annual Report at its meeting in April 2018. The Trust also provides a Counter Fraud service to Barking, Havering and Redbridge NHS Trust and North East London Foundation Trust.

5.5 Co-operation with other Board Committees

5.5.1 The Committee receives and reviews reports and minutes from other Board committees where relevant to its work. This is particularly the case with the Quality Assurance Committee (in such areas as clinical risk and quality of service provision) and the Finance, Business and Investment Committee (FBIC) (in such areas as financial risk and changing investment environment). The Committee benefits from overlap of membership with these committees (one member on the QAC and two on the FBIC).

5.6 Other Activities

5.6.1 The Committee has:

- considered and recommended to the Board for approval updated Standing Orders, Standing Financial Instructions and Scheme of Delegation; and,
- received reports on the waiving of tendering processes, any reported breaches of Standing Financial Instructions and losses and special payments made during the financial year.

6. Self-Assessment

6.1 The Committee conducts an annual self-assessment using the model questionnaire **contained** in the Audit Committee Handbook published by Healthcare Financial Management Association and the Department of Health. Emerging from this year's review was a few areas of disparity between respondents that the committee will need to address. The full details are appended to this report with variant responses summarised below:

| Question | Variant Response | Comments |
|---|--|---|
| The committee has set itself a series of objectives it wants to achieve this year. | One respondent disagreed | Potential work around clarity of objectives as these were agreed as part of the previous year's annual committee report |
| The committee clearly understands and receives assurances from 3rd Parties the organisation uses to manage/co operate key functions - for example, financial services operated by NHS Shared Business Services, and other NHS Bodies, commissioning support units or private contractors. | 2 respondents did not think this was applicable | The third party assurance statements have been coming to the committee for a number of years. These perhaps need a clearer prominence when presented. |
| Question | Variant Response | Comments |
| Equal prominence is given to both quality and financial assurance. | One respondent did not think this was applicable | This may be due to cross over with QAC |
| The committee has structured its agenda to cover, quality, data quality, performing targets and financial control. | One respondent disagreed | Whilst most people agreed that this happened the agenda could be split into sub sections to ensure each are is covered. |
| Other committees provide timely and clear information in support of the committee thereby eradicating the potential for 'surprises'. | One respondent disagreed | The committee might like to consider reviewing links with other committees |
| Members hold their assurance providers to account for late or missing assurances. | One respondent disagreed | There is a process in place to ensure deadlines are extended with exec approval. The committee may like to consider how it holds assurance providers to account |

| | | |
|---|--------------------------|---|
| When a decision has been made or action agreed I feel confident that it will be implemented as agreed and in line with the timescale set down. | One respondent disagreed | Whilst most agreed with this clearly confidence is not shared across the membership and this should be addressed. |
| At the end of each meeting we discuss the outcomes and reflect back on decisions made and what worked well, not so well etc. | 3 respondents disagreed | Clearly an area for improvement beyond highlighting outside of the meeting what should go to board. |
| The committee is clear about the complementary relationship it has with other governing body committees that play a role in relation to clinical governance, quality and risk management. | One respondent disagreed | This links to an earlier response where clarity and relationships between committees could be improved |

6. Future Directions

7.1 Areas to focus on during the 2019/20 financial year include:

- Continue to assess the function of the Committee and develop an action plan in response to the self-assessment exercise;
- Reviewing and monitoring governance and accountability arrangements for NHS partnerships;
- Assessing the effectiveness of the organisations activity in achieving its strategic objectives
- BAF properly aligned to new strategy and risk management arrangements functioning properly throughout the Trust
- Ensuring the Trust continues to deliver value for money

7. Assurance Statement

The Committee has considered carefully the information presented to it during the course of 2018/19 and is satisfied that it has acted within the scope of, and discharged its responsibilities under, its terms of reference. In particular the Committee confirms it has fulfilled its duties in respect of:

- considering and monitoring the governance arrangements for the organisation;
- the external audit and the Annual Report & Accounts;
- monitoring the provision and outcome of internal audit services, including the approval of an appropriate risk based programme of work; and
- Monitoring the provision of counter fraud services, including the approval of an appropriate programme of work.
- The Committee is satisfied that:

- The Trust's system of risk management during 2018/19 has been adequate in identifying risks and allowing the Board to understand the appropriate management of those risks; and
- The Assurance Framework has been fit for purpose and provided sufficient assurance to support the Board's decision-making.

Anit Chandarana
Audit Committee Chair