

## Audit Committee

**Confirmed Minutes of the Audit Committee held at 1:30pm, on Monday 30<sup>th</sup> October 2017 in the Boardroom, Trust Headquarters, 9 Alie Street, London E1 8DE**

**Present:** Paul Hendrick Non-Executive Director (Committee Chair)  
Mary Elford Non-Executive Director  
Kingsley Peter Non-Executive Director

**In attendance:** Steven Course Chief Financial Officer  
Mason Fitzgerald Director of Corporate Affairs (from item 5)  
Beth Raistrick Local Counter Fraud  
Clive Makombera Internal Audit, RSM  
Emily McKeown External Audit Manager, Grant Thornton  
Ciaran McLaughlin External Audit Director, Grant Thornton  
Georgia Denegri Interim Trust Secretary  
Elizabeth Holford Corporate Minute Taker

**Apologies:** Zenda Butler Senior Local Counter-Fraud Specialist  
Lorraine Sunduza Interim Chief Nurse

*The minutes are produced in the order of the agenda*

### **1 Welcome and apologies for absence**

- 1.1 The Chair welcomed everyone to the meeting. Introductions were made.
- 1.2 Apologies had been received from Zenda Butler and Lorraine Sunduza.

### **2 Declaration of interests on items on the agenda**

- 2.1 There were none.

### **3 Minutes of previous meeting held on 18 July 2017**

- 3.1 The minutes of the Audit Committee held on 18 July 2017 were agreed as a correct record of the meeting, other than that the date of the next meeting should read Monday (not Tuesday) 30<sup>th</sup> October 2017.

### **4 Action log and matters arising from the minutes**

- 4.1 The action log was reviewed and updated.
- 4.2 With regard to the action 'Review of risk allocation across Board committees', it was noted that this is scheduled to be discussed at the January Board Development session.
- 4.3 With regard to actions arising from the Workforce review audit, it was confirmed that the Board had delegated to the Appointments and Remuneration Committee responsibility for monitoring the action plan. Non-Executive Directors further

requested that the action 'Board to be informed about the degree to which previous reports included incorrect data' remains open, pending a formal report to the Board.

**Action: Mason Fitzgerald**

4.4 The Committee noted that the Quality Assurance Committee, at its September 2017 meeting, had agreed to receive updated mandatory training data for the Luton workforce following a re-profiling exercise. It was expected that correctly profiled mandatory training compliance data should be over 90%.

4.5 The Committee further noted other factors affecting data quality and consistency, including varying cut-off dates for month or quarter-end submissions (i.e. for closure of ledger and clinical systems). The Committee suggested that future performance and quality reports to the Board include narrative indicating the level of confidence in the data ('data quality kitemark').

4.6 There were no other matters arising.

## 5 External Audit

### a) Progress report

### b) Illustrative Audit Plan

5.1 The external auditors briefed the Committee on plans and intended style of working, following their recent appointment.

5.2 The Committee noted that the external auditor is in the process of discussing a workplan with the Chief Financial Officer and would present a detailed report to the Audit Committee in January 2018.

5.3 It is the external auditor's practice to provide the Committee at each meeting with an 'emerging issues update', including at October 2017, a National Audit Office report on value for money in learning disability services and information on setting up NHS companies. The external auditor would welcome requests from Committee members on areas of interest to be covered in future.

5.4 The Committee noted that:

- The external auditor's distinctive approach will be to provide comparative information, including in the Annual Report, and to present intelligence on collaborative working with the police and fire service.
- It is the external auditor's view that it is too early to make an assessment of the Trust's state of readiness for audit.
- Methods of audit are changing, with increasing use of electronic and continuous monitoring of records and a focus on management over-ride and predictive rather than reactive approaches. Work is taking place with Microsoft to develop algorithms. Both Grant Thornton and RSM use the IDEA system so the external and internal auditors will collaborate to ensure there is no duplication of work.

**Action: Clive Makombera and Ciaran McLaughlin**

- Work will take place in early November 2017 to identify any gaps to be filled in the month 9 audit file.
- Partnership arrangements with Tower Hamlets and the Newham Health Collaborative will be audited separately via CCG contractual arrangements.

5.5 In relation to tax avoidance schemes, the external auditor advised that NHS Improvement is seeking to improve compliance with guidelines. Community Interest Companies permit tax arrangements for temporary staff that are not available to

NHS bodies.

5.6 The Committee agreed that the Board should keep external auditors briefed on its strategic thinking through the Chief Financial Officer.

5.7 The Committee **NOTED** the progress report and illustrative audit plan.

## **6 Internal Audit**

### **a) Progress Report 2017/18**

6.1 The internal auditor presented the progress report and updated the Committee on the key findings from the Major IT Project Implementation (substantial assurance), STP Governance Arrangements (reasonable assurance) and Procure to Pay (reasonable assurance) audits. Four audits are in progress and five remain to be delivered. The internal auditor has confidence in plans to complete delivery by year end.

6.2 In relation to the Major IT Project Implementation (eCPA) review, the Committee noted that auditors had identified a lack of documentation on how benefits realisation would be assessed. The internal audit director advised that there would be value to the Trust in specifying measurable outcomes (clinical, operational and financial) at the outset and following through with early measurement.

6.3 In discussion of the findings from the STP Governance Arrangements audit, the Committee noted that constant change and uncertainty had been identified as a challenge to effective risk management. Although the Trust recognises risks from STP-level change, the risk register does not document how risks arising from partnerships and from leadership of STP workstreams will be managed. The Board should receive frequent communication on emerging risks, including between Board meetings when urgent.

6.4 In response to findings from the Procure to Pay audit, the Committee discussed the increase in the number and aggregate value of waivers reported to it (28 waivers with a value of £2.8 million at July 2017). The Committee noted that:

- The Trust has a low threshold for reporting waivers.
- Clear reasons are given for waiver, including that the Trust effectively has no choice in many instances (e.g. due to subcontracting arrangements in which CCGs direct the Trust to waiver or where there is a sole provider, or for continuity).
- It is rare that waivers are approved due to lack of time for mobilisation but constant management attention is needed to guard against this.
- The Chief Financial Officer signs waivers, providing an opportunity for review and control.

6.5 The Committee **NOTED** the internal audit progress report.

### **b) High Priority Management Actions in the NHS**

6.6 The internal auditor drew the Committee's attention to themes identified from high priority management actions across the firm's clients (436 actions for 86 clients of whom 44 were provider Trusts). Human Resources, governance and procurement account for the majority of actions identified as high priority. ELFT is not an outlier compared to other Trusts.

6.7 The Committee noted, in relation to cyber-security, that work is in progress by the Information Governance team to establish mandatory roles, either internally or by outsourcing (which would enhance independence). The Quality Assurance Committee will monitor progress and escalate any concerns to the Board. The internal auditor will assess state of readiness.

**Action: Clive Makombera**

6.8 The Committee **NOTED** the report on High Priority Management Actions in the NHS.

## **7 Counter Fraud**

### **a) Progress Report**

7.1 The Counter-fraud specialist presented the progress report and highlighted the following:

- There had been 36 referrals since April 2017 and 19 since 7 July 2017.
- Eight cases are under investigation by the Nursing and Midwifery Council and one by the General Medical Council; two cases are with the Crown Prosecution Service.

7.2 The Committee observed a trend towards more serious cases (e.g. illegal working). Training programmes are being implemented to address this and awareness training is offered at every staff induction event. It is believed that the regular awareness training results in greater reporting of potential fraud.

7.3 The Committee noted the high number of staff subject to sanctions (15 in total in the current report) and the consequent need to strengthen controls. Collaboration at STP level may enable greater sharing of information, though information held by other Trusts is already open to all prospective NHS employers. 'Passporting', whereby checks by one organisation are accepted by another, carries risks as well as benefits. Policies of other Trusts are being checked as part of the due diligence of any mobilisation plan.

7.4 The Committee expressed concern about delays in implementing some recommendations; e.g. INV 63 which is outstanding since July.

7.5 Finally, the Committee noted that three proactive reviews remain open: pre-employment checks, business interests' reviews and patients' monies and valuable property.

7.6 The Committee **NOTED** the Counter Fraud reports.

## **8 Board Assurance Framework (BAF)**

8.1 The Chief Financial Officer introduced the BAF, presented in a new format, noting that current red risks were for District Nursing, lack of achievability of CRES/control total and securing agreement via consultation to major transformation plans.

8.2 The Committee discussed the purpose and limitations of the current BAF format and the forthcoming process to refresh it, noting that:

- The BAF will be refreshed once the new strategic objectives are agreed following the feedback from the 'Big Conversation' events. A session on risk management will be held early in 2018 with the aim to have the refreshed BAF from the new financial year. The Committee asked for the timetable for

refreshing the BAF to be circulated.

**Action: Lorraine Sunduza**

- The current BAF is skewed towards operational risk. Greater focus is required on strategic risks generally and in particular externally-generated risks to ELFT's capability and capacity to deliver key strategic objectives. A set of related mitigating actions is required.
- The current BAF appears to contain circular reasoning with regard to the Trust's viability as a going concern.
- Risks are at present framed against current methods of operating rather than potential and likely future methods. The refreshed BAF will be forward looking. For example, under IT risks, the focus may be on delivery of data required by STPs and Accountable Care Organisations.
- There is a tendency to add risks to the BAF when they more properly belong in the Corporate Risk Register. It is the responsibility of the Board to ensure correct attribution.
- The principle, in selecting a format for the BAF, should be to enable effective Board focus. All formats have downsides. Structuring in relation to a manageable number of key strategic objectives is advisable. The External and Internal Auditors can advise the Board further from experience with other Trusts' BAFs.
- The Quality Assurance Committee, at its September 2017 meeting, had raised the issue of 'blanks' in the BAF, where there are gaps in control or assurance, or where risk target scores are missed. These blanks are not amenable to interpretation. Work should take place to ensure a common understanding of the concepts of gaps in control, assurance or achievement of risk target, and how stated action for each risk relates to these.

**Action: Lorraine Sunduza**

8.3 The Chief Financial Officer advised of the implications of failing to meet the 2017/18 control total. There is greater scrutiny by NHS Improvement (NHSI), to whom a revised forecast outturn has been submitted. NHSI is supporting the Trust by communicating with STP partners whose plans and actions must align with those of ELFT to achieve control totals in 2017 and 2018. No CRES schemes have yet been identified for 2018/19.

8.4 The Committee **NOTED** the current status of risks and plans for refreshing the BAF.

## **9 Review of Progress on Annual Accounts Recommendations**

9.1 The Committee **NOTED** the report which reconciled quarterly data to year-end figures.

## **10 Waivers**

10.1 The Committee reviewed waivers approved in the period 7 July 2017 to 10 October 2017. In response to comments from the Committee, it was noted that:

- Waivers for payments to Serious Incident reviewers no longer appear because Trust employment (via the Bank) has replaced self-employment.
- Scrutiny of expenditure on Serious Incident reviewers is via internal audit, annual reports and the anticipated appointment of Non-Executive Directors to the Serious Incidents Committee.

10.2 The Committee **NOTED** the Waivers List.

## 11 Finance (deep dive)

- 11.1 The Chief Financial Officer provided an overview of the scope of and findings from the 'deep dive' audit, which examined the structure, performance and risks pertaining to the finance department. Aided by comparative information for other Trusts, the purpose of the 'deep dive' was to provide assurance that the finance function is fit for purpose.
- 11.2 The Committee noted that:
- ELFT has comparatively high invoice processing costs, having retained in-house staff for debt recovery and accounts receivable. In other areas, benchmarking shows a favourable position.
  - Lack of capacity and capability in costing is a significant risk. Recruitment of substantive staff has proved difficult, resulting in reliance on expensive interims. Mitigating action includes: creating a 'flatter' departmental structure with more career opportunities; collaboration within the STP; possible outsourcing to a company with specific software.
  - Third party contracts generally work well, facilitated by monthly meetings with NHS Shared Business Services (SBS). The value of outsourced contracts has decreased due to increased electronic invoicing.
  - In the view of the Chief Financial Officer, the 'deep dive' validates the current time allocation between servicing external (financial accounting) and internal (management accounting) demands. The latter is managed by regular monthly reporting. Pressures arise from externally generated ad-hoc demands.
  - The Trust receives little benefit from the work involved in submitting 152 financial returns to NHSI, including weekly submissions on agency staff. The reporting requirements apply irrespective of the Trust's risk rank. NHSI uses data to 'trigger' re-forecasts if figures fall within a set trigger zone.
- 11.3 The Committee discussed how the Finance function might change in response to STP governance and Accountable Care Organisations, including managing during the transition. Structure and functions will need to accommodate a move away from block contracts, a more commercial approach and core/added value from collaboration within the STP. Standardised accounting systems (e.g. CISTAT for costing) will assist. A staff development programme is in preparation and alignment of teams to localities is being considered. There is a clear division of responsibility already between the Chief Financial Officer and the Director of Commercial Development.
- 11.4 The Chair thanked the Chief Financial Officer for his report.
- 11.5 The Committee **NOTED** the assurances provided by the Finance deep dive.

## 12 Quality Assurance Committee minutes:

- **12 June 2017 – confirmed minutes**
  - **25 September 2017 – draft minutes**
- 12.1 The Committee noted the confirmed minutes of the Quality Assurance Committee (QAC) meeting held on 12 June 2017 and the draft minutes of the meeting held on 25 September 2017.
- 12.2 The Chair of the QAC advised that at its meeting on 25 September 2017, the committee noted the progress made to date in Luton and Bedfordshire and decided that as the ongoing issues and improvements to be progressed there are similar to

those facing other directorates/localities, it is no longer necessary to be reviewing them as a standing item on its agendas. The Committee will be reviewing the Luton and Bedfordshire services in the same way as other directorates once a year.

**13 Any Other Business**

13.1 There was none.

**14 Forward Plan**

14.1 Noted.

**15 Issues to be brought to the Board's attention:**

- 15.1
- Internal audit key findings, STPs and IT;
  - Finance deep dive outcome;
  - BAF review.

**16 Date of next meeting:**

Tuesday 16 January 2017, 14.30-16.30, Boardroom, 9 Alie Street, London E1 8DE.

CONFIRMED