Trust Board Meeting in Public: Wednesday 8 November 2017
TB2017.106

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<td><strong>Status</strong></td>
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<td><strong>History</strong></td>
<td>The Audit Committee provides a regular report to the Board.</td>
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<td><strong>Board Lead</strong></td>
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A. Introduction

The Audit Committee last met on 20 September 2017. The main issues raised and discussed at the meeting are set out below.

B. Significant issues of interest to the Board

The following issues of interest are highlighted for consideration by the Board:

Internal Audit

1. The Committee considered the internal audit progress report, including an update on the implementation of internal audit recommendations. It was noted that as at the time of report 16 of the recommendations made by the internal auditors were overdue, of which 1 was rated as 'high' risk, related to the secure storage of medicines and fluids. In that regard, it was noted that a follow-up medicines management review had been scheduled to assess progress made, including how effective the implementation of prior recommendations had been.

The Committee accepted the Medical Director’s submission that most value would be derived from a review performed by internal auditors in Q4 of 2017/18, to provide assurance as to the quality of the annual audit that would in the meantime be carried out by the OUH Pharmacy team in Q3 of 2017/18.

The Committee will expect to receive a report on the outcome of the internal auditors’ follow-up medicines management review in April 2018.

2. Executive Directors were asked to ensure that the implementation of all internal audit recommendations was kept under close scrutiny, including regular monitoring by the Trust Management Executive [TME].

3. The Committee also specifically considered the Internal Audit Report on Divisional Financial Management, which had provided partial assurance, and the finalised management response. A further report on Cost Improvement Programme [CIP] Review had also provided partial assurance. It was noted that measures were being implemented to improve Divisional Financial Management, within a framework of quarterly Divisional Performance Reviews, which should also have a positive impact on the management and delivery of CIP..

Progress in the implementation of these measures and their impact will be kept under regular review by the Committee.

4. Other internal audit reports considered included those in relation to:
   i. The Reporting of Injuries, Diseases, Dangerous Occurrences Regulations [RIDDOR], which provided partial assurance;
   ii. Immigration Compliance – significant assurance with minor improvement opportunities;
   iii. General IT Controls – General Ledger - significant assurance with minor improvement opportunities; and
   iv. Occupational Health – no assurance rating assigned, as this was an additional review that had been undertaken outwith the scope of the Internal Audit Plan.
External Audit

5. The Committee received an update from the Chief Finance Officer on actions being taken in response to three control observations raised by the External Auditors as part of their 2016/17 work on the annual accounts in relation to:

   i. Exit packages - in respect of which the Limits of Delegation Policy was being strengthened, with the addition of a separate section on redundancy payments, in which the role of the Remuneration and Appointments Committee would be clarified.

   ii. PPE Fixed Asset Register [FAR] - in respect of which, following review of the policy for the valuation of assets, it was confirmed that no other method of apportionment would result in a more accurate valuation, and no further action was considered necessary.

   iii. Capitalisation of staff costs – in respect of which the importance of accurately allocating staff time between revenue and capital projects has been re-iterated and reinforced in meetings between the Financial Manager Technical and the project lead.

Update on External Audit Working Group

6. An update was provided to members of the Audit Committee alone on progress in the market testing of external audit services, in readiness for submitting a recommendation on the appointment of external auditors to the Council of Governors in January 2018.

Reference Costs

7. The Chief Finance Officer presented a report in preparation for the formal sign-off of reference costs, confirming that the increase of £43m in the quantum of costs submitted was attributable to increased activity, the impairment of assets, non-pay inflationary rises and substantive pay awards.

Activity was reported to have increased across most categories, and notable changes highlighted included:

   • An increase in Cancer MDT costs as a result of a focused piece of work to define the costs and resource of the various staff disciplines that had input, and reflecting a move away from estimates to actual costs;
   • An increase in community health service cost and activity, primarily due to the costs associated with the purchase of care home beds as part of the Delayed Transfers of Care [DTOC] and out of hospital support programmes; and
   • A reduction in cystic fibrosis costs, while the number of patients by year of care had increased.

8. Potential areas for improvement and focus for 2017/18 Reference Costs were highlighted to include:

   • Development of an appropriate methodology to calculate the cost of an abandoned interventional radiology procedure;
   • Improvement in the attribution to patients of theatre non-pay items, subject to the successful introduction of bar code technology;
   • Establishment of a database of Job Plans for medical staff; and
• Conduct a survey to ascertain the allocation of Trainees’ time.

The Committee noted that review and prioritisation of the areas upon which to focus for 2017/18 Reference Costs will be delegated to the Trust Management Executive [TME].

9. The Committee noted that the Trust had been selected as one of a cohort of trusts to participate in the national Costing Assurance Audit which would provide:

- An assessment of whether the Trust’s arrangements for recording costs information were in accordance with the costing guidance;
- To confirm that the Patient Level Information Costing System [PLICS] submission reflected the Trust’s costs; and
- To test the consistency of the PLICS return with the Trust’s reference cost return.

Any action to implement recommendations made as a result of the audit will be overseen by the Committee.

Counter Fraud

10. A progress report was considered on Counter Fraud activities. Key points highlighted included:

➢ The onus now lay on the Trust to record updated action on FIRST (the NHS Protect system) within 90 days;
➢ NHS Protect now acted as a gateway for the initial crime file submissions to the Crown Prosecution Service [CPS] in relation to Local Counter Fraud Service [LCFS] investigations;
➢ LCFS had embarked on a communication strategy designed to maximise staff awareness of what they should do if confronted by fraud, bribery or corruption;
➢ LCFS was scheduled to undertake a review of a selection of relevant policies and procedures, under which it was noted that the Policy on the Declaration of Gifts, Hospitality and Sponsorship was due to be reviewed in the light of guidance issued by NHS England on Managing Conflicts of Interest. The revised Policy is due to be considered for approval by the Board on 8 November 2017.

The Committee also reviewed confidential summaries of legacy cases and active investigations, as well as of active and closed referral enquiries.

Other issues reported

11. An update was provided on the project to upgrade the Trust’s finance and procurement system to Oracle Cloud. This highlighted some delays encountered, notwithstanding which the go-live date of 4 December 2017 was regarded as achievable, subject to meeting specific criteria that were being compiled.

The Committee welcomed the fact that the formal go/no-go decision would be taken on the basis of applying objective and transparent criteria, and agreed that a Non-Executive Director should participate in that decision, which is to be taken by the end of November 2017.

12. The Chief Information and Digital Officer reported on capital projects outturn, outlining instances of overspend against the allocated capital with regard to five schemes that had recently completed or were currently in train: Infectious Diseases on the JR site; Endoscopy on the Horton site; Day Surgery on the Churchill site; Interventional Radiology within the West Wing on the JR site and Neonatal on the JR site.
The report also identified four schemes where significant underspends had been highlighted.

13. The Chief Information and Digital Officer reported on the outcome of a review undertaken to identify improvements in the process for production of the Annual Report.

14. The Committee endorsed the restated principle of the Deep Dive process to be “to give the members of the Audit Committee sufficient information to make an informed judgement about the system of internal control and the level of assurance gained in relation to that system of control”.

It was agreed that a Deep Dive review should be undertaken of the system of internal control relating to Health and Safety.

15. The Committee received a regular report on losses and special payments for the period from April 2017 to August 2017.

16. The Committee reviewed the schedule of single tender waivers for the period from April 2012 to August 2017, noting that additional control measures were now in place related to requisitions and retrospective spend, which appeared to be impacting on the amount of waivers. For the first time in three years, there was reported to be a downward trend, with the waiver amount for the year being 70, compared to 106 and 111 in 2016 and 2015 respectively.

C. Key Risks Discussed

The following key risks were discussed:

17. The Committee considered the risks identified in the Internal Auditors’ reports on Divisional Financial Management and CIP Review, and will monitor the implementation and impact of measures to improve Divisional Financial Management, including the delivery of CIP, within a framework of quarterly Divisional Performance Reviews.

18. The Committee considered the risks identified in the Internal Auditors’ report on RIDDOR, noting that beyond a strengthening of guidance on identifying what incidents were reportable under RIDDOR, there remained a challenge in fostering a culture of compliance with policies and procedures throughout the organisation.

19. The Committee considered the risks associated with ensuring the adequacy of processes in place to record accreditation and regulation activities, so as to be able to provide sufficient assurance that the processes were being carried out in an effective and appropriate manner.

D. Key decisions taken

The following key decisions were made:

20. Recommendations to improve the process for production of the Annual Report were accepted, to include publication of a timetable which would set an earlier end date for the completion of key sections of the Annual Report.

21. The Committee accepted the proposal that the results of re-tendering for internal audit and local counter fraud services during 2017 would form a proxy for the review of the effectiveness of the internal auditors and the local counter fraud services.
22. The Committee further accepted the proposal that the process of retendering for external audit services, in which the Trust was currently engaged, would act as the review of effectiveness of external audit services for the current year. It was agreed that any further review of effectiveness should be put on hold until after the award of the contract for external audit services.

23. The Committee approved a policy for the Engagement of External Auditors for providing Non-Audit services, so as to ensure that any threats to auditor independence arising from the performance of such additional work would be carefully considered and deemed to be clearly insignificant.

E. Agreed Actions

The Committee agreed the following actions:

24. That the process for developing and implementing Business Cases will be strengthened, with the procedure for capital construction projects to be submitted for approval of the Investment Committee.

25. A Deep Dive review should be undertaken of the systems of internal control processes relating to Health and Safety.

26. The Assurance Team will provide support as appropriate, to update the database of activity related to regulation and accreditation, and to develop a ‘heat map’ of regulation and accreditation processes.

F. Matters deferred for future consideration

27. No matters were deferred

G. Assurance required from/actions required by other Board sub-committees or the Trust Management Executive

28. The Committee asks that the implementation of all internal audit recommendations be kept under close scrutiny, including regular monitoring by the Trust Management Executive [TME].

29. The Committee notes that the procedure for capital construction projects is to be submitted for approval of the Investment Committee.

H. Matters to be referred to the Trust Board

30. The Committee advises that further consideration be given by the Board to the Control issues highlighted in the report on capital projects outturn (see paragraph 12 above).

Recommendation

31. The Trust Board is asked to note the contents of this paper.

Anne Tutt
Audit Committee Chairman

November 2017