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<th>Title</th>
<th>Audit Committee Chairman's Report</th>
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<td>Status</td>
<td>For discussion and approval</td>
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<tr>
<td>History</td>
<td>This is a regular report to the Board</td>
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<td>Board Lead</td>
<td>Mrs Anne Tutt, Audit Committee Chairman</td>
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<td>Key purpose</td>
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Executive Summary

1. The Audit Committee is a Committee of the Trust Board and, as such, provides a regular report to the Board on the main issues raised and discussed at its meetings.

2. Since the last meeting of the Board held in public in January 2019, the Audit Committee met on 20 February 2019 as part of its regular cycle of meetings.

3. Under its terms of reference, the Committee is responsible for providing assurance to the Trust Board on the Trust's system of internal control by means of independent and objective review of financial and corporate governance, and risk management arrangements, including compliance with law, guidance, and regulations governing the NHS. This report aims to contribute to the fulfilment of that purpose.

Recommendations

4. The Board is asked to:

   - Note the contents of the Audit Committee’s regular report to the Board on the main issues that were discussed at its meeting held on 20 February 2019.
Report from Audit Committee Meeting held on 20 February 2019

The Audit Committee met in February 2019 and covered the following key agenda items:

Update on timetable for Annual Accounts and Annual Report 2018/19

The committee was informed about the timeline for Annual Accounts and Annual Report for 2018/19. The structure of the Annual Report for 2018/19 is the same as last year and the indications are that the requirements, in respect of detailed content, are very similar to last year, although some further guidance is still awaited. A project plan and timetable have been formulated to ensure that the accounts and annual report can be produced in line with this deadline.

The Audit Committee:

• Noted the position and the work underway to prepare the draft accounts and annual report.
• Noted that the timetable attached at annex 1 and the implications this has on when key decisions need to be made.
• Noted that the production of the annual report relies on the provision of the information set out in annex 2.

Update on Accounting Policies, Judgements and Material Estimates

The Committee received updates on the Accounting Policies, judgements and Material Estimates. Draft accounts are required to be produced by noon on Wednesday 24 April 2019. NHS bodies are statutorily obliged to comply with the determination and directions given by the Secretary of State for Health, in the preparation of their annual accounts. Accounting policies, accounting estimates and material judgements are adopted in preparation of the annual accounts. The Trust has reviewed and updated its assumptions supporting the Modern Equivalent Asset valuation of land and buildings. This includes an estimate of the Trust’s space required to deliver services, and some properties which now meet the criteria to be classified as Investment Properties.

The Committee:

- Adopted the accounting policies for preparation of the 2018/19 accounts.
- Considered the accounting estimates and material judgements and in particular the proposed credit loss in support of the application of IFRS9 Financial Instruments.

Land and Building Valuation

The Committee received the Land and Building Valuation report. Accounting policies, accounting estimates and material judgements are adopted in preparation of the annual accounts. As part of preparation for the 2018/19 accounts the Trust has independently valued its Land and Buildings and Investment Properties. The report summarises both the impact of the updated Modern Equivalent Asset and the revised schedule of Investment Properties together with the impact of the revaluation of Land and Buildings and Investment Properties.

The Audit Committee noted the report.

Income Recognition

The Committee received an update on Income recognition. The income recognition accounting standard applicable to the Trust has changed for 2018/19 with the application from accounting periods beginning on or after 1 January 2018 of IFRS15. The criteria for being able to recognise income is now principally to match income to meeting the performance obligations in the contract.

It was recommended that the Audit Committee support the conclusion that a fundamental error was committed in the preparation of the prior period accounts and that a Prior Period Adjustment is
required. The value of the prior period adjustment to be finalised but it is of the order of £16-18m.

The Audit Committee supported the conclusion of the detailed analysis of historic income recognition and that a prior period adjustment be considered.

The Audit Committee considered the assessment of the historic errors against criteria for requiring a Prior Period Adjustment noting that the value concerned is material.

**Process for production of Annual Governance Statement 2018/19**

The Committee received updates on the process for the production of the Annual Governance Statement. A copy of the guidance on the preparation of the annual governance statement was issued to the Committee. In line with the accounting timetable, the Assurance Team will compile a first draft of the Annual Governance Statement for circulation to members of the Audit Committee in advance of providing the draft required for submission to NHS Improvement by 24 April 2019.

The final version of the Annual Governance Statement will be presented for final approval at the next Audit Committee meeting. The Committee agreed that lessons will be learnt from the timeline of last year and the timeline and process will be improved on.

The Committee agreed the timeframe for the production of the Annual Governance Statement.

**Update on External Audit**

- **Approach to Value for Money**
- **Approach to Income Recognition**

The Auditors presented the Audit Progress report with a summary of the key audit stages as reported in the Audit Strategy Memorandum to the November Audit Committee.

Specific work in the period since the last Audit Committee on 16 November 2018 is set out below:

- Minutes review and meetings with key management to inform our understanding of the Trust
- Documentation and walkthrough of the following core financial systems: Payroll, expenditure, income (healthcare and non-inventory, cash)
- Early testing of journal entries
- Review of the Trust's Fixed Asset Register and overview of the land and buildings valuation methodology, including planned disposals
- Ownership and existence testing of main hospital sites
- Early testing of the PFI financial and operating models
- Agreement of opening balances at 1 April 2018 in the general ledger
- Review of the progress made towards group accounting for 2019/20
- Arrangements for for stock count attendance
- Initial review of management’s application of IFRS15 Revenue From Contracts and impact for 31 March 2018 deferred income
- Initial meeting and project planning for the Quality Report audit including confirmation of the core indicators for testing (wait and 62 day cancer wait) and the locally chosen indicator (SHMI)

No issue of material concern was highlighted to the Committee.

The Committee noted the update.
Internal Audit Progress Report:

• Data Security & Protection Toolkit

The Committee was presented with the Data Security & Protection Toolkit assessment. The auditors have assessed the overall design and operation of key mandatory data security and protection toolkit controls at the Trust as partial assurance with improvements required which reflects that there are Data Security and Protection processes in place, but there are key actions which are required to meet the national standard mandatory assertions by the March 2019 deadline.

The Auditors provided a summary of key areas as contained in the report.

• ESR IT Controls

As part of the auditors review, aspects of the Trust’s design and operating effectiveness of IT controls in relation to the ESR HR system was identified to be good practice. Access rights of staff within the Trust’s HR and payroll function are segregated to reduce the risk of unauthorised pay-related transactions. Furthermore, Trust staff are issued with smartcards which comprises two-factor authentication which allow access to the NHS Spine Services (which includes ESR).

The Auditors provided a summary of key areas as contained in the report.

• Maternity CQC Compliance

The purpose of the review was to visit the Maternity services to assess progress with the action plan developed to address the issues raised by the CQC during their last inspection, which took place in November 2017. On the basis of the review the auditors have made an overall assessment of Significant assurance with minor improvement opportunities. The findings reflect a review of documentation, observations during visits to the clinical areas, and discussions with staff.

The Auditors provided a summary of key areas as contained in the report.

• GDPR – Privacy Diagnostic Review

This internal audit review has focused on how the Trust has addressed specific key aspects of the General Data Protection Regulations (GDPR) that came into force from May 2018. Where the auditors have raised recommendations, these are to be considered on a timeline basis to assist the Trust’s ongoing journey to compliance with GDPR. Overall, the auditors have given this review an assurance rating of Partial assurance with improvements required.

The Auditors provided a summary of key areas as contained in the report.

The Audit Committee also noted the work carried out by the Auditors in relation to Serious Incident Reviews.

The Committee noted the contents of the report.

Update on Implementation of Internal Audit Recommendations

The Committee received the update on internal audit recommendations which was incomplete. The members again expressed disappointment at the lack of progress in a number of areas and the unclear summary report. This was again referred to TME for a more comprehensive update at the next meeting.

Counter Fraud Progress Report

The Counter Fraud Progress report was presented to the Committee by Grant Thornton. The report provides a summary of the counter fraud work conducted at the Trust since November 2018 against the NHS Counter Fraud Authority’s anti-fraud standards, based upon and limited to the work
performing in line with our agreed annual work plan.

The Committee noted the contents of the report.

Progress Update regarding Implementation of the Findings of the Review of Counter Fraud Services

The Committee received the Progress Update regarding Implementation of the Findings of the Review of Counter Fraud Services. The report provides the Committee with an update on the position reached as at 13th February and it was identified that significant progress has been made. A draft policy has also been received from the Director of Workforce.

The Committee noted the progress which has been made.

Compliance Report – Single Tender Waivers

The committee received an update on Compliance Report – Single Tender Waivers.

The financial thresholds at which the Trust is required to seek competitive procurement action for all goods/services/works are set out in the Trust's Standing Financial Instructions and the Trust’s Limits of Delegation Policy. A register was presented to the Committee which includes details of all single tender waivers from 01 October 2018 to 31 December 2018 for expenditure outside of those thresholds.

The Committee noted the contents of the report.

Compliance Report – Losses and Special Payments

The Committee agreed to write-off 52k loss in relation to an overseas patient. Write-off's over 50k should be brought to the attention of the Committee. The Committee was also informed that this will be reported in the Q4 column.

Ionising Radiation (Medical Exposures) Regulation Update

The Committee received an update on Ionising Radiation (Medical Exposures) Regulation.

The Committee was informed that the action plan is being reviewed and the Committee was updated on key areas of the action plan. The committee was also informed that 11 recommendations were received and accepted and the Trust is compliant with 5 areas and there are 6 amber and red areas. The areas identified are on course to meet the target dates.

The Committee noted the contents of the update.

BAF and CRR

The Audit Committee was presented with the:

Corporate Risk Register:

The paper provides a summary of the current risks on the CRR as discussed by the Quality Committee and Finance and Performance Committee on 13th February it has been updated to reflect:

- The discussions of the latest TME in January 2019 including the risks escalated on to the CRR and;
- The changes to risk scores identified by the divisions as part of the quarterly review process.

Board Assurance Framework:
This provides the current version of the BAF together with summary of the assurance team view, as agreed by the Executive Director owner.

As part of the discussions at the Committee the risks on the register were aligned with the issues addressed by the Committee. The issues referred by the Committee to TME will also be captured by the risk register where applicable.

The PET-CT risks will be captured in the updated Risk Register as discussed at the Quality Committee.

The Committee noted the contents of the report.

Review of Forward Plan and agenda items for next meeting and identification of any issues to be referred to the Board or other committees

The Committee reviewed the Forward Plan.

The Committee confirmed that a deep dive schedule will be agreed around April / May 2019.

Anne Tutt
Audit Committee Chairman
January 2019