

## Board of Directors (in Public)

### Item 5.1.1

**Subject:** Annual Report of the Audit Committee 2019/20  
**Date of meeting:** Tuesday 28<sup>th</sup> April 2020  
**Prepared by:** Lucy Lavan, Director of Corporate Affairs  
**Presented by:** Julian Farmer, Chair of Audit Committee

BAF Ref	Impact on BAF
3.2	The report provides assurance that the Audit Committee is working effectively

#### 1. Introduction

As recommended in the Audit Committee Handbook, this report sets out how the Committee has functioned and supported the Board of Directors at LHCH during 2019/20, by critically reviewing governance and assurance processes on which the Board of Directors place reliance.

The Audit Committee is established under delegation of the Board of Directors with approved terms of reference that are aligned with the *Audit Committee Handbook 2018*. The Terms of Reference were reviewed and updated by the Audit Committee and approved for adoption by the Board of Directors in April 2019. (Appendix 1).

The Committee's membership consists of five non-executive directors and this reflects the importance that the Board of Directors places upon the ability of the Committee to enable effective non executive challenge as well as the wider remit of the Committee. The Committee has met on five occasions during 2019/20 and has discharged its responsibilities for scrutinising the risks and controls which affect all aspects of the organisation's business.

#### 2. Principal Review Areas

This annual report reflects the key objectives of the Committee as set out in the terms of reference.

##### 2.1 Internal Control and Risk Management

The Committee having reviewed relevant disclosure statements for 2019/20 and other appropriate independent assurances together with the anticipated receipt of the Head of Internal Audit Opinion, external audit opinion at its May 2020 meeting considers that the draft 2019/20 Annual Governance Statement is consistent with the Committee's view on the Trust's system of internal control. Accordingly the Committee supports the recommendation that the Board of Directors approve of the 2019/20 Annual Governance Statement.

The Trust has continued to further embed the risk management systems in place during 2019/20 and the Board has undertaken a review of its appetite for risk and updated the Risk Management Policy and Board Assurance Framework accordingly. The Datix system is now embedded and has

led to improved incident reporting and integration of incidents, claims, complaints and risk management. The Committee reviewed the risk management KPIs in July 2019 and January 2020 and the Risk Management Policy was updated in July 2019 to reflect the Board's review of its appetite for risk.

Following the Well Led Review (March 2017) the Audit Committee has maintained oversight of the development of a new Data Quality Strategy and has strengthened its terms of reference to reflect its responsibility for oversight of data quality assurance.

The Audit Committee has received and reviewed annual reports for 2019/20 from each assurance committee of the Board of Directors (March 2020); these enabled the Audit Committee to test the effectiveness of the Assurance Committees and be satisfied that the assurance mechanisms are fit for purpose in terms of discharging the responsibilities delegated by the Board of Directors. All internal audit recommendations in relation to the effectiveness of the assurance committees have been considered and followed up.

The Committee has continued to reinforce the importance of management follow up in respect of audit work and further improvement is needed in some areas in this respect. A new online tracking system is to be implemented in 2020/21 which will support this process.

The Committee has undertaken an annual comprehensive review of compliance with the provider licence and reviews a quarterly checklist of key provisions to identify any new or emerging licencing risks.

The Committee has identified the need to continue a close focus on data quality assurance going into 2019/20 in light of the informatics review findings, along with new areas highlighted in the latest edition of the Audit Committee Handbook, namely partnership working at scale, cyber security and working with the regulators. The Audit Committee Terms of Reference and annual business cycle have been updated to reflect these areas.

## **2.2 Internal Audit**

Throughout the year, the Committee has worked effectively with internal audit to ensure that the design and operation of the trust's internal control processes are sufficiently robust.

A comprehensive risk-based programme of internal audits has been carried out and there were four limited assurance opinions issued in 2019/20 relating to Staff Integrity Vetting, Charitable Funds Income & Expenditure, IT Service Continuity and IT Asset Management. All limited assurance reports are reviewed in full at Audit Committee with the relevant officer in attendance to present the management response. The Committee has considered all major findings of internal audit reviews and has given increased focus in 2019/20 to the controls in place to mitigate cyber security threat and in improving management escalation processes to ensure timely implementation of internal audit recommendations. A review of evidence to support provider licence self-certification was undertaken.

The Committee reviewed and approved the internal audit plan and detailed programme of work for 2019/20 at its March 2019 meeting. This included a range of key risks identified through discussion with Management and Executives and review of the Trust's BAF. Reviews were identified across a range of areas, including Financial Performance & Sustainability, Information & Technology, Governance & Leadership, Quality and Workforce.

MIAA has supported the non executive directors over the year through the provision of networking events, policy advice, and Insight updates.

MIAA routinely reviews the papers received by the Board of Directors and minutes of Board meetings to pick up on areas of potential risk for inclusion in the audit programme.

### **2.3 Anti-Fraud**

The Committee reviewed and approved the anti-fraud work plan for 2019/20 at its March 2019 meeting, noting coverage across all mandated areas of strategic governance, inform and involve, prevent and deter and hold to account. The Committee also during the course of the year regularly reviewed updates on proactive anti-fraud work – no specific fraud investigations were undertaken in 2019/20.

### **2.4 External Audit**

The external audit service was last market tested during 2017/18 with a new contract awarded by the Council of Governors to Grant Thornton with effect from October 2017. During this final year of the contract the Audit Committee will consider, in consultation with the Council of Governors, the timing of the next market testing exercise and also consider possibility of extending the current contract for a further one or two years.

The Committee routinely receives a progress report from the external auditor, including an update annual accounts audit timetable and programme of work, updates on key emerging national issues and developments which may be of interest to Committee members alongside a number of challenge questions in respect of these emerging issues which the Committee may wish to consider.

### **2.5 Management Assurance**

The Committee has frequently assessed the adequacy of wider corporate assurance processes as appropriate and has requested and received assurance reports from executives, managers and wider Committee representation throughout the year. These have included a progress update on PAS and informatics development, reviews of the clinical audit programme and compliance with NICE guidelines, an update on staff integrity vetting following a limited assurance score, updates on data quality assurance and a review of the Charitable Funds Income & Expenditure Report 2019/20, prior to approval by the Board of Directors.

### **2.6 Financial Assurance**

The Committee has reviewed the accounting policies and annual financial statements prior to submission to the Board and considered these to be accurate. It has ensured that all external audit recommendations have been addressed.

### **2.7 Other Assurance**

The Committee has routinely received reports on Losses and Special Payments and Single Supplier Tender Waivers.

The Committee has reviewed and updated the Governance Manual including Standing Financial Instructions and Schemes of Delegation and has formally adopted the revised manual. It has also periodically reviewed the Trust's register of external visits.

Members of the Committee have met privately with the internal and external auditors, without the presence of any Trust officer.

## **3. Review of the Effectiveness and Impact of the Audit Committee**

The Audit Committee has undertaken its annual self-assessment by self-assessing compliance with selected areas of the Audit Committee checklist, as set out in the Audit Committee handbook. All Audit Committee members completed the checklist and a follow up discussion was facilitated by MIAA to discuss the responses and identify any areas for potential further development.

Attendance at Audit Committee during 2019/20 is set out in the table below:

Member	28 <sup>th</sup> May 2019	16 <sup>th</sup> July 2019	8 <sup>th</sup> Oct 2019	14 <sup>th</sup> Jan 2020	24 <sup>th</sup> March 2020*
Julian Farmer (Chair)	✓	✓	✓	✓	✓
Nick Brooks	✓	✓	✓	x	✓
Mark Jones	✓	✓	✓	✓	✓
Bob Burgoyne	✓	✓	✓	✓	✓
Karen O'Hagan	✓	✓	✓	✓	✓
<b>Attendees</b>					
Claire Wilson (Chief Finance Officer)	✓	✓	✓		
Frankie Morris (Deputy Chief Finance Officer, Acting CFO from 1 <sup>st</sup> Jan 2020)	✓	✓	✓	✓	✓
Lucy Lavan (Director of Corporate Affairs)	✓	✓	x	✓	✓
Robin Baker (Grant Thornton)	✓	✓	✓ Mark Heap	x	x
Georgia Jones (Grant Thornton)	x	✓	x	✓	✓
Nigel Woodcock (MIAA)	✓	✓	✓	✓	✓
Michelle Moss (MIAA)	x	✓	✓	✓	x

The Chair of the Audit Committee reports on the Audit Committee's work to the Council of Governors at each quarterly meeting.

\*In order to limit the spread of Covid-19 and limit the number of people at the Trust, the decision was taken to conduct the 24<sup>th</sup> March 2020 as an e-meeting, all papers were sent to members electronically with a record of individual contribution sent for completion by each Audit Committee attendee and returned to the Director of Corporate Affairs. All those participating in the e-meeting were recorded as present.

#### 4. Looking Ahead

In the coming year the Audit Committee will focus its attention on new areas of oversight, including the following:

- Assurance processes to support data quality;
- Assurance processes to support cyber security;
- Maintaining oversight of action plans required by regulators;
- Ensuring appropriate governance arrangements and risk management processes are in place to support wider systems / partnership working;

Following the Board's self-assessment of the Trust's Freedom to Speak Up arrangements, an independent review by MIAA will be built into the internal audit programme, every two years.

There will be a continued role for the Committee in testing the effectiveness of formal Board Assurance Committees, given that these are key controls in ensuring the delivery of the Trust's annual plan and discharge of effective governance and risk management.

The Committee will adapt its work programmes in order to respond to any new emerging policy on health and risks associated with the economic and external environment.

## **5. Terms of Reference**

The Committee's Terms of Reference are compliant with the latest edition of the Audit Committee Handbook (March 2018) and were updated in January 2019 to reflect the Audit Committee's responsibility for the oversight and assurance of data quality processes and were approved by the Board of Directors on 30<sup>th</sup> April 2019. An annual business cycle is maintained to support the Committee in effectively discharging its responsibilities as delegated by the Board of Directors.

## **6. Conclusion**

This annual report summarises the work of the Committee in 2019/20 and concludes that there are no matters that the Committee is aware of at this time that have not been disclosed appropriately.

## **7. Recommendation**

The Board of Directors is asked to note the contents of the report.