

Item 6.2.1.2

## Audit Committee

## minutes

### Minutes of the Audit Committee Meeting held on Monday 29<sup>th</sup> January 2018

<b>Present:</b>	Julian Farmer Nick Brooks Mark Jones Marion Savill	<b>Non-Executive Director (Committee Chair)</b> Non-Executive Director Non-Executive Director Non-Executive Director
<b>In Attendance:</b>	Vicky Beenham Sarah Blackwell Mark Jackson Mike Thomas Lucy Lavan Jennifer O'Brien Claire Wilson	Head of Financial Accounts Senior Internal Audit Manager-MIAA Director of Research & Innovation (Item 3.1 only) Grant Thornton Director of Corporate Affairs Secretary Chief Finance Officer
<b>Apologies for Absence:</b>	David Bricknell Darren Sinclair	Non-Executive Director Non-Executive Director

#### 1. Apologies for Absence

As noted above.

#### 2. Declarations of Interest Relating to Agenda Items

None declared.

#### 3. Governance and Risk

##### 3.1 Review Clinical Audit Plan & 6 Monthly progress Report

The paper provided an update on national audit developments, progress on the delivery of the Clinical Audit Forward Plan 2017/18 and showed organisational learning from reviews of national audit reports.

The National Clinical Audit Benchmarking project (NCAB) provided a visual snapshot of individual Trust audit data set against individual benchmarks. The portal launched in November 2017 and contained the results of six national audits with only the following two relevant to

#### Action

the Trust;

- Intensive Care (ICNARC)-no issues arising
- Lung Cancer (Royal College of Physicians)-outlier for a number of patients seen by the cancer nurse specialist and one year survival

The new National Cardiac Audit Programme was focused on quality improvement and would combine the former separate audits Adult Cardiac Surgery, Cardiac Rhythm Management, Congenital Heart Disease, Heart Failure, MINAP (heart attack) and Percutaneous Coronary Interventions (PCI) into one single audit with one annual report across all six clinical domains. The aim was to deliver reports in late spring/early summer 2018.

A further key change ahead included a new IT platform which was being developed called Qreg5 replacing the Lotus Notes based IT platform.

Clinical audits that must be undertaken to meet external monitoring requirements and meet contractual obligations were the main focus and use of the team's resources.

NICOR submissions would be made prior to the national internal deadline of 31/03/2018 for the heart disease audits.

It was noted that the clinical audit department were concerned over the ability to sustain the data quality requirements to meet all the national audit deadlines for quarter four, with areas of concern noted below;

- Myocardial Infarction National Audit Programme (MINAP)
- Congenital Heart Disease Cardiac (CHD)
- National Adult Cardiac Surgery Audit
- National TAVI Registry
- Medical and Surgical Clinical Outcome Review Programme (NCEPOD)-Periop Diabetes Management
- Thoracic Surgery Audit

Further details on the reasons behind these concerns were provided in the paper and noted by the Audit Committee. Members were assured that the staffing issue in relation to MINAP would be resolved by 1<sup>st</sup> April 2018 which should prevent reoccurrence of the problem.

A concern was raised within the paper relating to the new ACHD service as the agreed staffing model only showed a 0.5 whole time equivalent of a post, which would be insufficient. The Chief Finance Officer (CFO) informed the Committee that a meeting was taking place between the Trust, Alder Hey Children's NHS Foundation Trust and The Royal Liverpool and Broadgreen University Hospital Trust (RLBUHT) where she would discuss this matter as it was agreed that that a full time post was required.

The remainder of the national clinical audits, as detailed on page four

of the report were all being progressed as planned.

The table provided under section 3.3 of the paper showed the organisational learning from national clinical audit reports published in 2017/18. Positive points to note were;

- Good performance and a strong national reputation following the UK Cystic Fibrosis Registry Annual Data Report 2016
- Reassuring audit findings with the BTS National Bronchoscopy Audit.

An area of concern to note was detailed within the Lung Cancer Clinical Outcome publication 2017, LHCH received an alert from HQIP and the Society for Cardiothoracic Surgery (SCTS) as patients who had surgery at LHCH in 2015 had one of the lowest 1 year survival rates at 82.3% against a target of 87.9%. Although, it was noted that this may be an issue with the external secondary care the patients received after their surgery once they had been discharged from LHCH. Actions following this alert were noted as;

1. Review the data for accuracy of the deaths at 1-year (already initiated by S Woolley, thoracic data lead for LHCH)
2. Liaise with the Merseyside and Cheshire Lung Cancer Network over the care of patients during their first year after surgery, in particular the causes of their deaths (already initiated)
3. R D Page would work with the SCTS and HQIP over improving the usefulness of the Lung Cancer Clinical Outcomes Project (on-going)

A question was raised over audits for surgery and thoracics as the national audit appeared to be dominated by cardiac. Committee members were informed that the audits were nationally mandated so the Trust had to participate where instructed, however the Director for Research & Innovation assured committee members that the Trust did participate in audits in surgery and thoracics and those findings could be provided in a much more comprehensive report but asked to note that this is only a summary paper shared with this committee.

The report was noted as helpful to Committee members by providing the various data in one paper.

### **3.2 Review Losses and Special Payments**

This paper provided the regular update seen by the Audit Committee on losses and special payments for the period October to December 2017. Summary was noted below;

- One new loss and special payment agreed during the period, totalling £98.50, relating to property lost whilst an inpatient.
- There had been three payments for legal claims totalling £9,292. With £5,651 of this charged against the provision held in respect of these claims at the 2016/17 year end. There had also been one payment in the period relating to a historical permanent injury benefit totalling £1,750.

- Following a detailed review of aged debt, and after having taken advice from SBS debt collection, a total of 67 invoices each with a value of less than £1,000, had been written off to the Bad Debt provision with a total value of £12,886. The largest individual item written off was £762 and 28 of the items written off had a value below £100. Due to their age and low value it was considered not economically viable to chase this debt further.
- There had been 73 cases of credit notes being raised to write off billing errors. The charge to the bad debt provision for these credit notes totalled £226,709, with the greatest individual amount credited £32,683. The principle reason for credits raised was incorrect invoicing due to errors in invoice rates or activity levels.
- There was no individual expenditure which exceeded the £50,000 threshold requiring Board approval.

Appendix 1 of the report provided a breakdown of all expenditure on losses and special payments.

There had been 1 payment of £1,750 during the period in respect of a historical permanent injury benefit awarded by the NHS Injury Benefits Scheme. The payment covered the period July to September 2017.

The Trust was expecting to make payment for October to December 2017 in respect of the above claim in January 2018.

In the 2016/17 accounts the Trust provided for a total of £5,250 against one employment liability case which was subsequently settled for £3,561. As this amount was below the maximum scheme liability on a case of this type the full amount was borne by the Trust. The excess of provision held over the actual payment made of £1,689 was credited back to the Trust's income and expenditure account during the quarter. In the same year, £5,291 provided for against another employment liability case was settled for £5,299, with the shortfall in the provision of £8 charged to the Trust's income and expenditure account during the quarter.

In July 2017 the Trust was notified of an employee liability claim. The claim was settled for £3,633 during the third quarter of the financial year and as this amount is below the maximum scheme liability on a case of this type, the full amount was borne by the Trust.

The bad debt provision brought forward from 2016/17 stood at £908,641. This provision had increased by £214,000 during the nine months to December 2017, following a detailed review of the likelihood of impairment of debts over 60 days.

In addition to the £104,297 write-off approved in the September 2017 Audit Committee, in October to December 2017, 67 invoices below £1,000 where recovery had been assessed as not economically

viable had been written off to the bad debt provision with a value of £12,886. In addition, 73 credit notes with a value of £226,709 had been raised to cancel invalid old debt due to incorrect pricing or activity.

The remaining bad debt provision balance available to the Trust at 31<sup>st</sup> December 2017 was £642,866.

The audit committee was required to authorise any debt write off where the value exceeded £1,000. Appendix 2 detailed the invoices requiring write off as a result of the on-going reconciliation work with BUPA. The proposed write off was for 7 invoices totalling £33,552. The Audit Committee was asked to authorise the write off of these invoices.

It was anticipated that the on-going investigations into the aged debt may result in additional unrecoverable debt that would need to be written off during the period 1<sup>st</sup> February to 31<sup>st</sup> March 2018. The write offs would need to be approved and actioned before the SBS ledger was closed for the 2017/18 final accounts, the timing for which would be in advance of the next Audit Committee. It was therefore recommended that delegated authority be given to the CFO to approve any such write offs over £1,000, should they arise, and these would then be presented at the next Audit Committee.

The CFO was questioned as to whether any learning was derived from the employment liability claims against the Trust, Committee members were assured that the detail behind these claims went to the Execs meeting at the time and any further investigations needed were picked up at the time.

Noting the previous issues with regards to bad debt, the CFO was asked whether the current arrangements would avoid the Trust getting into the situation again. The CFO assured the Committee that significant improvements had been made in the last 6-12 months and a Private Patient Manager would be starting within the next two days. A Private Patients Operational Group had been established which updated a section of the private patient policy every time they met, this then fed into the newly established Private Patient Oversight Group which had clinicians as members.

The CFO confirmed that the previous issue largely lay with the wrong prices being charged, insurance companies not agreeing with these prices and therefore not paying out. A complete review of prices had been carried out and the internal auditors would be checking the new provisions in place to ensure they were working.

The Committee authorised the write off of the 7 invoices totalling £33,552.

The Committee authorised the delegation to the Chief Finance Officer for the write off of unrecoverable debts over £1,000 during the period 1<sup>st</sup> February to 31<sup>st</sup> March 2018.

### **3.3 Review Single Supplier Tender Waivers**

The paper provided the regular update seen by the Audit Committee on instances of single supplier tender waivers recorded for October to December 2017.

There had been 8 tender waivers raised in quarter 3 of the financial year at a total value of £416k. Full details of which were provided in Appendix 1 of the report. A summary of individual tender waivers raised was provided below;

- MEP Machine £45k, sole supplier for the equipment-Medtronic Ltd.
- Surgical Instrument trays for the DaVinci Robot £27k, sole supplier of trays large enough for the decontamination instruments -Peaks & Dales Medical Ltd.
- Anterior and Posterior XL2 coils for Philips 1.5T Achieva MRI Scanner £58k, only company able to supply the parts as they are unique to the system-Mount International United Services Ltd.
- Rigid Bronchoscopy £22k, replacement of out of date equipment, to fit into existing stacking systems-Karl Storz Endoscopy UK Ltd.
- Allura Xpre FD10/10 £123k, sole supplier of manufacturer specific parts-Philips UK & Ireland.
- Works to Theatres G&H £22k, use of incumbent supplier of UPS system so as not to invalidate the service agreement and warranty-Bender UK.
- Upgrade of Fibre Links to/from AIMES £22k, not feasible to introduce new links due to cost and service disruption-AIMES management Services Ltd.
- Aintree maintenance service £97k, for services provided to LHCH over 6 months including staff recharges and materials acquired at preferential rates-Aintree University Hospitals NHS Foundation Trust.

The content of the report was noted by the Audit Committee.

### **3.4 Annual Audit Committee Evaluation**

The Director of Corporate Affairs stated that all responses had been received to the questions distributed by MIAA, however one or two anomalies had been seen. Therefore a group discussion had been scheduled for the 6<sup>th</sup> March 2018 to help inform internal audit produce the final summary report.

### **3.5 Compliance with Licence: Review of Quarterly Checklist**

The quarterly checklist had been updated at Q3 2017/18, with the primary risks relating to;

- Breach of RTT and diagnostic targets in December 2017 and risks to future compliance as a result of operational/winter pressures.

- The findings of the informatics review which highlighted gaps in controls and assurance relating to data quality.
- Delivery of the Control Total as a result of financial risks relating to funding for HRG4+ (Wales) and possible penalties associated with the Knowsley contract.

The Board of Directors would discuss the impact on BAF and review the risk scores associated to the related principal risks at the Board of Directors Meeting on Tuesday 29<sup>th</sup> January 2018.

The Director for Corporate Affairs confirmed that the Trust had recently met with NHSI, who were fully informed of the risks noted above and were not unduly concerned.

The gaps in data quality assurance highlighted from the informatics review were noted and Audit Committee members were aware that the Chief Finance Officer and KPMG were working through the issues.

The Chair noted learning for the Board in relation to the findings of the informatics review and the need to ensure full understanding of the scope and basis of independent assurances provided in the future.

### **3.6 Internal Audit Effectiveness Review**

The Trust carried out a survey to assess the effectiveness of the internal audit service currently provided by Mersey Internal Audit Agency (MIAA). The survey was sent out to 46 people, with 23 responding. The full responses were set out in Appendix 2 of the paper, with a summary in the main body of the report.

The results of the survey indicated that MIAA were perceived to be providing the Trust with a service that was professional, responsive and effective. There were some areas highlighted that would merit further examination such as the need for reviews into IT and Purchasing, also any gaps in effectiveness identified by the recent Informatics review. It would also be helpful for MIAA to review the assurance categories to further differentiate between 'significant' and 'limited'. It was stated that the Director of MIAA was reviewing the definitions, although concern was raised over an additional 'middle' definition over the fears that all assurances would just fall into this category. It was suggested that a significant or limited assurance could be given with an 'except for' note whereby further specific details were provided.

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### **3.7 Updated Scheme of Reservation & Delegation (SORD)**

The Trust's SoRD included provision for charity expenditure up to £5000 as subject to formal approval by either the Chief Financial Officer or Chief Executive Officer. Transactions over £5000 required approval from the Charitable Funds Committee. Additionally, the Director of Corporate Affairs was authorised to approve expenditure up to £5000 in relation to the operation of the Fundraising function.

The Head of Fundraising had approval to sign off transactions up to

£500 for operating expenses for the Charity, but this was not detailed within the SoRD.

The situation above exposes the Trust to risk that expenditure was being processed outside of the approved SoRD, and had been noted by the recent internal audit report on Charitable Funds.

It was therefore proposed that changes were made to the SoRD to add the following references:

- Table A, section 20: Petty Cash: Delegated to Chief Financial Officer, Operational responsibility: Head of Financial Services
- Table B, section 5: For Charitable Funds Petty Cash needs authority from Head of Financial Services and Head of Fundraising – Limit £500

The Audit Committee approved the proposed changes.

### **3.8 Informatics Review**

The CFO informed Committee members that a paper was being presented to the Board of Directors on Tuesday 29<sup>th</sup> January 2018, which contained the Management response to the KPMG review and an action plan to progress with the recommendations made.

The CFO confirmed that she was targeting the high risk areas such as;

- RTT activity data recording
- Data quality
- People
- Technical-the need to rebuild the data warehouse
- Review of current reporting processes
- Governance-are risks identified and escalated correctly.

The Audit Committee were informed that the CFO was focused on the staff within the informatics team having met with them collectively and on an individual basis. It was stated that the report was welcomed by the staff members who were keen to understand the next steps.

Audit Committee members questioned how assurance would be given whilst the remedial works were underway. The CFO informed members that she had tasked KPMG with completing an immediate piece of work on data quality so that further details on specific areas of concern could be given and deep dives into these areas occur.

The committee were asked to note that the Trust would follow the tender waiver process for KPMG on this piece of work as it was concluded that it would be most beneficial for them to carry out this remedial work as they had completed the initial investigations.



## **4. Internal Audit**

### **4.1 Progress Report on Delivery of Plan**

The report showed that since the previous Audit committee meeting in November three reports had been finalised; combined financial systems review and controlled drugs review both giving significant assurance and the follow up report, detailed below under agenda item 4.2.

Key areas agreed for action were detailed within the reports. Committee members were advised that the action relating to the CIP allocated and incorporated into the budgets would not undermine effective budget control, it was simply that the CIP programme had not been fully identified. It was thought that this would be in place by 31<sup>st</sup> March 2018, with 80% currently identified.

Internal Audit confirmed that they had gone through the controlled drugs review with the responsible officers, discussing the key areas for action, with these noted on page 9 of the report with page 10 detailing the tightening up of arrangements required.

The following pieces of work were noted as work in progress;

- Payroll review-fieldwork in progress.
- Conflict of Interest-fieldwork in progress.
- E-Rostering-ToR agreed.
- Private patient's review-ToR issued.

Internal Audit confirmed there were no concerns over the delivery of their plan.

### **4.2 Follow Up Report**

Internal Audit presented the bi-annual report which followed up on the implementation of agreed actions in order to assess whether implementation had occurred or been superseded by further events and whether the actions had produced the intended effect.

The pace of the implementation of the consultant job planning was discussed with three recommendations partially and one not implemented. It was confirmed that a large amount of work had been completed in this area and with how large the issue was, good progress had been made.

Committee members were assured that technical security was not a significant risk as the company could not access any data unless they were physically on site and the Trust signed them on. The Trust's own internal process ensured that data could not be accessed simply, local arrangements mitigated the risk.

The Audit Committee noted the report stating it was positive to see much improved progress being made in respect of internal audit recommendations.

### **4.3 MIAA Insight Report**

This report was provided for information only with the contents of the reported noted by the Audit Committee.

## **5. External Audit**

### **5.1 External Audit Update Report**

The report provided to the Audit Committee gave an update on the the external auditor plans to deliver the 2017/18 statutory audit.

Planned work on Financial statements audit, value for money, quality account, meetings and events were provided on page four of the report with page five detailing the 2017/18 deliverables and planned dates.

A sector update was provided for Audit Committee members' information providing a summary of emerging national issues and developments to support the Trust. The introduction of GDPR in May 2018 was highlighted, although it was confirmed that this was not a concern in relation to the Charity as procedures were already compliant with the requirements. It was also confirmed that LHCH did not currently raise enough money to breach the threshold set by the new fundraising regulator where charges would be incurred.

### **5.2 External Audit Plan**

Introduction and headlines were provided on page three of the report giving details in relation to;

- Significant Risks including; the revenue cycle (healthcare and non-healthcare) including fraudulent transactions, management override of controls, and valuation of property, plant and equipment.
- Materiality.
- Value for Money arrangements.
- Audit logistics.
- Independence.

It was noted that submission of draft accounts to auditors and NHSI was set for midday on 24<sup>th</sup> April 2018 and the submission of audited accounts due by midday 29<sup>th</sup> May 2018. Key challenges of financial pressures and single oversight framework were also detailed.

Page five onwards gave in depth detail surrounding the significant risks identified and what the external auditors aimed to do about these, with page eight detailing other audit responsibilities in addition to their responsibilities under the code of practice.

## **6. Review of Audit Committee Work Plan**

Committee members were satisfied that work was being carried out per the work plan schedule.

## **7. Minutes of Meeting held on Tuesday 7<sup>th</sup> November 2017**

Noted and approved.

## **8. Review of Action Log**

**Item 1-**The CFO confirmed that the Trust had withdrawn from the CTP process as due to the informatics review the hospital was not in a stable enough position to participate. This item would be marked as complete and removed from the action log.

As a result of the above, the costing training to NED's would not be applicable at this time. This item would be removed from the action log.

**Item2-**This item was discussed under agenda item 3.6. This item would be marked as complete and removed from the action log.

**Item 3-**This item was discussed under agenda item 4.2. This item would be marked as complete and removed from the action log.

**Item 4-**It was confirmed that the Head of Fundraising had given an update to the Charitable Funds Committee on 9<sup>th</sup> January 2018 on the progress of the recommendation made regarding the sales of pin badges. This item would be marked as complete and removed from the action log.

The CFO confirmed that the Trust would not be losing support from Microsoft. Regular patches were still being received and older versions of the software were still being supported. This item would be marked as complete and removed from the action log.

**Item 5-**The work plan had been updated to show the meeting date in January was 29<sup>th</sup> January 2018. This item would be marked as complete and removed from the action log.

**Item 6-**A new standing agenda item 'Evaluation of Meeting' had been added to the work plan. This item would be marked as complete and removed from the action log.

The action requested at Charitable Funds Committee on 9<sup>th</sup> January 2018 regarding the assurance definitions and risk classifications used by the internal auditors had been discussed under agenda item 3.6.

## **9. AGS Issues**

No new AGS issues were raised; breach of targets had been discussed as part of the Q3 review of the licence.. The draft AGS would be seen at the Audit Committee in April 2018.

#### **10. Evaluation of Meeting**

All committee members confirmed that the meeting had been conducted effectively.

#### **11. Date and Time of Next Meeting:**

Tuesday 10<sup>th</sup> April 2018, 1.30-3.30pm, Research Meeting Room