

Audit Committee

Item 6.1a

Subject: Annual Report of the Audit Committee 2017/18
Date of meeting: Tuesday 10th April 2018
Prepared by: Lucy Lavan, Director of Corporate Affairs
Presented by: Julian Farmer, Chair of Audit Committee

BAF Ref	Impact on BAF
3.2	No Impact - the report confirms 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 2017/18, 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 2011*, published by the HfMA and Department of Health. A new edition of the Audit Committee Handbook was published in March 2018 and the Terms of Reference and Audit Committee (Appendix 1) and business cycle have been updated accordingly.

The Committee consists of five non executive directors (six for part of 2017/18 during period of handover between departing and new NEDs) 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 4 occasions during 2017/18 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 2017/18 and other appropriate independent assurance together with the anticipated receipt of the Head of Internal Audit Opinion, external audit opinion at its May 2018 meeting considers that the draft 2017/18 Annual Governance Statement is consistent with the Committee's view on the Trust's system of internal control. Accordingly the Committee supports the recommendation of the Board of Directors approval of the 2017/18 Annual Governance Statement.

The Trust has continued to further embed the risk management systems in place during 2017/18. 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 KPI's in July 2017 and undertook a comprehensive review of compliance with the risk management policy in November 2017.

The Committee has undertaken a review of the Well Led Report in relation to the effectiveness of assurance committees (July 2017) and has also received and reviewed annual reports for 2017/18 from each assurance committee of the Board of Directors; these enable 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. MIAA followed up the Well Led review with a further review of the Assurance Committees and made recommendations enabling the Trust to streamline reporting and eliminate duplication.

Other risk priority areas identified by the Committee for review included community services administrative processes review (limited assurance), mobile computing (limited assurance), Consultant job planning review, risk assessment review, charitable fund processes, expenses, cyber security, combined financial systems, controlled drugs, payroll (all significant assurance), together with a review of evidence to support provider licence self-certification and review of conflict of interest arrangements. Other reviews including e-rostering and private patients are currently in progress.

Where limited assurance was received the committee deliberated the report in full with follow up audits/review of action plans requested.

The Committee has identified the need to maintain a close focus on data quality assurance going into 2018/19 in light of the findings of KPMG's review of the informatics function.

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.

The Committee has given considerable attention to the importance of follow up in respect of internal audit work in order to gain assurance that appropriate management action has been implemented. The latest follow up report received by the committee in January 2018, noted much improvement in the degree of progress since the previous year, demonstrating the impact of improved management controls.

The Committee has considered the major findings of internal audit and where appropriate has sought management assurance that remedial action has been taken. For 2017/18 'limited assurance' has been assigned to two reviews; community admin and mobile computing. On both occasions, the Committee requested sight of the full report including management response and attendance at the meeting by the lead Executives/Manager. This has continued to strengthen the Committee's response to major audit findings in 2017/18 and has ensured that any control weaknesses are understood by the Audit committee and are quickly addressed.

The Committee reviewed and approved the internal audit plan and detailed programme of work for 2017/18 at its March 2017 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 systems, IM&T, Performance, Clinical Quality, Workforce, Governance and Risk.

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 counter fraud work plan for 2017/18 at its March 2017 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 counter fraud work and 1 fraud investigation was undertaken, completed and closed.

2.4 External Audit

The external audit service was market tested during 2017/18 with a new contract awarded by the Council of Governors to Grant Thornton with effect from October 2017. An audit task group was appointed to oversee the appointment process. Whilst the previous audit contract was also with Grant Thornton, there has been a change to the audit team with Mike Thomas and Georgia Jones replacing Jackie Bellard and Jo Whittingham.

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 review of CIP delivery assurance, actions to address MIAA findings in relation to review of Community administrative processes, review of Freedom to Speak Up Policy and arrangements, NICE guidance review and monitoring of risk management KPIs. The Committee also noted findings of the Informatics review and will carry forward to conclusion (2018/19 business cycle) assurance that effective arrangements are in place for data quality.

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 Source 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. A new policy on Managing Conflicts of Interests was incorporated into the Corporate Governance Manual following publication of new national guidelines in July 2017.

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 Trust's first independent Well Led Review was completed in March 2017 and this included a review of the effectiveness of the Board's assurance committees, including the Audit Committee. There were no significant findings and a developmental action plan was put in place with oversight by the Board of directors. The key outstanding assurance gap relates to data quality following a review of the informatics function by KPMG. The audit Committee has reflected on the previous

positive assurances received in relation to data quality and during 2018/19 will ensure that the Trust has in place new and effective assurance mechanisms for data quality.

In view of the in-depth governance review, the Audit Committee limited its annual self-assessment to a review of compliance with the Audit Committee checklist- as set out in the Audit Committee handbook. All Audit Committee members completed the checklist and a follow up workshop session was facilitated by MIAA to discuss the responses and identify any areas for development. Alongside this process, the two newly appointed NEDs completed the LHCH Audit Committee induction checklist with the Chair of the Audit Committee.

The review also included follow up review of actions identified from the February 2016 review which were confirmed to be complete.

NED attendance at Audit Committee during 2017/18 is set out in the table below:

Member	30th May 2017	17th July 2017	7th Nov 2017	29th Jan 2018
Julian Farmer (Chair)	✓	✓	✓	✓
Marion Savill	✓	x	✓	✓
Lawrence Cotter	x	N/A	N/A	N/A
Nick Brooks	N/A	x	✓	✓
David Bricknell	✓	✓	✓	x
Mark Jones	✓	✓	✓	✓
Darren Sinclair	N/A	✓	x	x
Attendees				
Claire Wilson (Chief Finance Officer)	✓	✓	✓	✓
Lucy Lavan (Director of Corporate Affairs)	✓	✓	✓	✓
Mike Thomas (Grant Thornton)	✓	✓	x	✓
Jo Whittingham/ Georgia Jones (Grant Thornton)	x (Caroline Stead)	x	✓ (Georgia Jones)	x
Tim Crowley (MIAA)	x	x	x	x
Sarah Blackwell (MIAA)	✓	✓	✓	✓
Michelle Moss (CF – MIAA)	x	✓	x	x

4. Looking Ahead

In the coming year the Audit Committee will focus its attention on 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 working;

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 have been reviewed to reflect the expansion of the Audit Committee role as set out in the new Audit Committee Handbook (March 2018). The Audit Committee is asked to review the proposed changes (Appendix 1) and recommend these to the Board for adoption. The business cycle will be updated to support the Committee in effectively discharging its responsibilities as delegated by the Board of Directors at LHCH.

6. Conclusion

This annual report summarises the work of the Committee in 2017/18 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 Audit Committee is asked to review the report and make any amendments prior to submission to the Board of Directors.